

North East Mayoral Strategic Authority

Bus Franchising Consultation Document

July 2026



Table of Contents

Introduction	3
Independent audit.....	5
Executive summary of the FSA	6
Executive summary of the equality impact assessment	19
The assessment process	20
Description of the franchising scheme	20
Full Summary of the FSA.....	24
Strategic case summary	25
Economic case summary.....	41
Financial case summary	50
Commercial case summary	63
Management case summary.....	83
Overall conclusion of the FSA	94
Summary of the equality impact assessment	94
Appendix 1 – Public and Statutory Questions	96
Appendix 2 – Independent Assurance Report	105
Appendix 3 – MSA Responses to the Observations.....	114
Appendix 4 – Proposed Franchising Scheme	123
Appendix 5 – Equality Impact Assessment	132
Appendix 6 – Franchising Packaging Maps	140

Introduction

About the Mayor and the North East MSA

The North East Mayoral Strategic Authority (North East MSA) is led by an elected Mayor and Cabinet and covers the local authority areas of County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, North Tyneside and South Tyneside.

Kim McGuinness was elected as the first North East Mayor in May 2024. She was elected on a manifesto dedicated to creating the infrastructure of opportunity – including a public transport network that is safe, reliable and affordable.

What are we consulting on?

People across the North East rely on their local bus services, which provide vital transport links to employment, education, healthcare, leisure and tourist destinations. Buses are the region's most used mode of public transport and are often the only public transport option available. Our bus network has, however, been in long-term decline – with the number of bus journeys and size of the network both reducing by approximately one-third since 2010.

The MSA is considering introducing bus franchising in the North East. Franchising would bring the bus network into public control, meaning the MSA would determine routes, frequencies and fares. Operators would bid for contracts to operate services to the MSA's specification.

In line with the relevant legislation¹, the MSA has completed a Franchising Scheme Assessment (FSA) which compares introducing franchising to continuing with the region's existing Enhanced Partnership (EP). The EP is a statutory partnership through which operators and the MSA work together to introduce agreed improvements within a deregulated market structure. Operators remain primarily responsible for designing and operating the bus network within the EP.

Consultation allows the needs and priorities of those who live, work and travel in the region to be heard by the MSA and considered as part of this decision. Consultation also provides an opportunity to understand how franchising would impact people and businesses in the region and any mitigation measures necessary.

Who can take part?

This consultation is open to all individuals and organisations. We would like to hear your views, whether you currently use the bus or not. You do not have to live in the North East to take part in the consultation. Respondents can choose between two questionnaires offering different levels of detailed questions when submitting their consultation response.

Respondents may answer as a member of the public or in an official capacity (for example, on behalf of an organisation). Responses from members of the public will remain anonymous, but responses submitted in an official capacity may be published.

¹ This consultation is required by the Transport Act 2000 as amended by the Bus Services Act 2017 and the Bus Services Act 2025 (the Act), and has been prepared in accordance with the Act and the supporting guidance published by the Department for Transport: Setting up a bus franchising scheme, as updated on 29 January 2026 (the Guidance).

How do I respond?

The consultation is open for 12 weeks, starting on 6 July 2026 and ending on 28 September 2026. Consultation responses must be received on or before 28 September 2026.

Responses should be submitted through the questionnaires available at www.northeast-ca.gov.uk/haveyoursay, which can also be found appended as Appendix 1. Alternatively, responses may be submitted as an email sent to haveyoursay@northeast-ca.gov.uk or in a letter addressed to North East Mayoral Strategic Authority, The Lumen, St James' Boulevard, Newcastle upon Tyne, NE4 5BZ.

Physical copies of the consultation questionnaires will be available at consultation events held by the North East MSA across the region and available online at www.northeast-ca.gov.uk/haveyoursay.

Where do I get more information?

This document includes all the information you need to answer the consultation questions, with the attached appendices providing further information:

- Public and statutory questionnaires (Appendix 1)
- Independent Assurance Report (Appendix 2)
- MSA responses to the observations (Appendix 3)
- Proposed Franchising Scheme (Appendix 4)
- Equality Impact Assessment (Appendix 5)
- Franchising package maps (Appendix 6)

This document has been published alongside the FSA, which is available to access at www.northeast-ca.gov.uk/haveyoursay. Please note some of the figures and content are inconsistent between the FSA and this consultation document as updated information has been captured in the consultation document following the independent assurance process. These differences are clearly highlighted in this document and should be relied on by consultees to inform their responses.

Accessibility information

If you require consultation materials in a different format, please contact us via:

Email: haveyoursay@northeast-ca.gov.uk

Telephone: 0191 277 4223

Post: North East Mayoral Strategic Authority, The Lumen, St James' Boulevard, Newcastle upon Tyne, NE4 5BZ.

What happens next?

All responses will be received, processed, and analysed by the North East MSA and its appointed partner to prepare a report on the consultation.

This report will be published alongside the report setting out the MSA's response to the consultation. In addition to the FSA and other relevant materials, these reports will inform the North East Mayor's decision whether to make the proposed franchising scheme. The North East Mayor's decision is currently expected in March 2027 however this date may be subject to change depending on the consultation process and its outcome, as well as other matters

regarding the MSA's business. Following the end of consultation the MSA may, in accordance with section 123E(6) of the Act, make changes to the proposed franchising scheme which reflect consultation responses received. It is also expected that the North East MSA Cabinet will be consulted on the final decision.

Independent audit

Why was assurance required?

Authorities that prepare an FSA, such as the North East MSA, are required to obtain an independent assurance report which outlines whether:

- the information relied on by the authority in producing the economic (value for money) and financial (affordability) cases of their assessment is generally of sufficient quality
- the analysis of that information is of sufficient quality
- that the authority has had due regard to guidance issued by the Secretary of State under section 123B of the 2000 act in preparing its assessment

The North East MSA appointed Grant Thornton LLP as the independent auditor responsible for undertaking this assurance process, which included a full document, data, and modelling review.

Assurance outcome and MSA response

Following their review, Grant Thornton issued a clean audit opinion to the North East MSA on 16 June 2026 which confirms the North East MSA has satisfied the requirements set out in legislation. The independent assurance report is available as Appendix 2.

The auditor also collated a number of observations on the assessment and reported these to the North East MSA, none of which were considered by the auditor to be sufficiently material to affect the auditor's opinion in the independent assurance report. Accordingly, none of these observations impact the conclusion of the FSA that the proposed franchising scheme is better placed to deliver our strategic objectives compared to continuing with the EP, that it is good value for money, affordable, commercially viable and deliverable.

These observations are welcome and recognised, and the MSA is satisfied that none of them contain any grounds not to proceed to consultation.

This document reflects how the MSA has addressed a number of these observations, meaning that some sections of this document differ from the original content in the FSA; this is marked clearly throughout this document to avoid confusion.

MSA responses are available as Appendix 3.

Executive summary of the FSA

What is a franchising scheme assessment?

The Transport Act 2000 and associated guidance define the legal process that an authority must follow before deciding whether to introduce bus franchising. Development of Franchising Scheme Assessment (FSA), which compares the proposed franchising scheme to the current EP is central to this process.

Buses are currently deregulated, meaning private bus companies set routes, timetables, fares and service standards. An 'Enhanced Partnership' is in place, where the North East Mayoral Strategic Authority (North East MSA), local authorities and bus companies work together to deliver improvements to bus services. However, bus companies still retain control over key decisions.

If the proposed Bus Franchising Scheme is introduced, the public would have more say over services, timetables, routes and fares, with bus companies contracted by the North East MSA to deliver franchised services.

An FSA follows the five-case model for business cases

- **Strategic case:** sets out the available options for bus reform (in the North East, franchising or continuation of the existing EP), establishes a case for change, and assesses whether introducing franchising would better support the achievement of regional policies compared to continuing with the current EP.
- **Economic case:** assesses the economic impact and value for money of these options.
- **Financial case:** assesses the financial implications and whether the options are affordable.
- **Commercial case:** sets out the commercial arrangements for the delivery of local bus services under both options and assesses whether these are commercially viable.
- **Management case:** considers how the MSA would make and operate the proposed scheme.

Summaries of each case can be found within this consultation document. The full cases are available within the published FSA.

Summary of the proposed franchising scheme

The franchising scheme is the legal document through which franchising is implemented. The proposed franchising scheme is appended to this document as Appendix 4.

The proposed franchising scheme establishes that franchising will apply to the clear majority of local bus services operating within the North East MSA area. A small number of service categories are exempted from regulation under the scheme.

The Mayor will decide whether to make the scheme in March 2027. Should she decide to make the scheme, the first franchised services are expected to operate in autumn 2029.

Strategic case summary

The strategic case considers why bus reform is needed in the North East, sets out the available options for bus reform and assesses how the options contribute to the MSA's implementation of the mayor's Local Transport Plan and other relevant policies as well as the contribution made to its neighbouring authorities' policies. The strategic case assesses the options against the MSA's strategic objectives and concludes that franchising offers greater fulfilment of the MSA's 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 Local Transport Plan and other relevant policies.

Case for change

Approximately 51% of bus operator revenue originates from the public sector through a number of complex and often opaque funding streams but, despite this significant public investment, there is continuing long-term decline in both bus ridership and network size. Change is required due to the following challenges in the status quo:

- An **customer offer that is inconsistent and not integrated**, with operators providing different passenger information and ticketing offers.
- **Value for money**. While funding can be provided to lower fares, these reimbursements aren't subject to a value for money test through competitive tendering, and are linked to a 'shadow fare' that increases with inflation.
- In many places, one company runs most services with **little or no competition**, meaning there's less incentive to improve things for passengers.
- Operators dictate the pace, frequency and nature of service changes with limited influence from or **accountability to communities** affected.
- Poor **punctuality and reliability** which undermine passenger confidence in the network and make buses less attractive compared to private cars and other transport options.
- **Passenger safety** issues are a significant concern for passengers, especially **violence against women and girls**.
- The North East MSA has made addressing **child poverty** a strategic priority – the bus network does not reliably connect people to employment and education opportunities that can lift them out of poverty.

Further decline to the region's bus services would ultimately result in a skeleton network of profitable routes in urban corridors. 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.

Bus reform options

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.

EP

The MSA², its constituent authorities and Nexus entered into the 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 services, such as the popular package of 'The Mayor's Fares' which have collectively been used 100 million times (to June 2026).

The EP does not, however, change the structure of the market which has seen long-term decline – with a 32% reduction in bus mileage since 2010 – 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.

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 have been instances where operators have undertaken limited engagement with communities prior to network changes, despite the presence of an agreed Code of Conduct.

Franchising

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 also requires a 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 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.

The MSA has met with neighbouring transport authorities on the implications of franchising for their areas during the development of the FSA, with discussions particularly focused on the impact on cross-boundary services. Such discussions were considered as part of developing the approach to cross-boundary services outlined in the commercial case.

Assessment against strategic objectives

Informed by the Local Transport Plan and the MSA's wider strategic ambitions, six strategic objectives have been used to assess both options. The table below sets out a high-level

² Through the North East Joint Transport Committee, the MSA's predecessor regional transport body.

summary of this assessment which concludes that franchising is better placed to meet our strategic objectives.

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.	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.	Green	Yellow
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles.	Yellow	Yellow
	Information, including real time information, should be accurate, integrated and accessible through a single source.	Green	Yellow
	The delivery model encourages use of bus as part of a multi modal network.	Green	Yellow
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled.	Yellow	Yellow
Make the bus network resilient.	The bus network should be financially sustainable and resilient in the long term.	Yellow	Red
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.	Yellow	Yellow
	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible.	Yellow	Red
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.	Green	Yellow
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.	Yellow	Red
	North East residents should be advocates of the bus network.	Green	Yellow

Economic case summary

The economic case assesses the economic impact and Value for Money (VfM) of the proposed franchising option relative to the EP. It considers the impact of the proposed franchising scheme (relative to the EP) on the economy, environment, passengers, bus operators, public accounts (MSA and national accounts), and wider society. The economic model assesses the costs and benefits of implementing the proposed franchising scheme when compared to the EP over a 30-year appraisal period.

Overall, the proposed franchising scheme is expected to have ‘medium’ value for money³. Compared to the EP reference case, the proposed franchising scheme is forecast to generate a variety of benefits for the economy, environment, public accounts, and the wider society. These benefits are higher than the costs of implementing the proposed franchising scheme.

Economic Case – methods and results⁴

The following methods were used to assess the impacts:

- Net Present Value (NPV): Costs subtracted from benefits. A positive NPV means that the option has more benefits than its costs.
- Benefit Cost Ratio (BCR): This is calculated by dividing the benefits by the costs – a higher BCR would mean there is greater benefit achieved for every pound spent by the North East MSA.

The values in the table below represent the incremental monetised benefit of the proposed franchising scheme relative to the EP reference case and demonstrate that franchising offers greater value for money than the EP⁵.

	£k 2023 PV ⁶
Present value of benefits (PVB)	£1,549,364
Present value of costs (PVC)	£832,245
Net Present Value (NPV)	£717,118
Benefit Cost Ratio (BCR)	1.86

The proposed introduction of bus franchising is expected to result in an immediate uplift in demand for bus services. Further investment and policy intervention will be required to sustain this growth in patronage, in line with the North East MSA’s strategic ambitions, but these sit outside the scope of this economic assessment.

Bus use under the proposed franchising scheme is expected to decline in line with historical trends after this initial uplift in the demand for bus services. However, the rate of decline

³ Based on the HM Treasury Green Book definitions, in which medium VfM is where the benefit-to-cost ratio is between 1.5 and 2.0.

⁴ The figures in this section have been recalculated following the modelling error identified in audit and therefore differ from those in the FSA.

⁵ Please note that these figures differ for the figures presented within the FSA due to modelling updates made during the audit process.

⁶ All monetary values presented in this table are in 2023 prices and discounted to 2023 for the 30-year appraisal period

under the proposed franchising scheme is expected to be slower than the rate of decline under the EP reference case.

Financial case summary

The financial case assesses the financial implications for the North East MSA regarding the two potential options: the continuation of the current Enhanced Partnership (EP); or making the proposed franchising scheme. In particular, this case looks at whether the MSA would be able to fund the transition to, and ongoing operation of, either option.

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 the public sector body that the FSA assumes will operationally deliver franchising DB (the Delivery Body or DB⁷) can afford to make and operate the proposed franchising scheme.

The North East has a relatively complex funding structure for bus services and relies on several disparate funding sources such as central government grants, farebox revenue, reimbursement for fare schemes and concessionary travel, and contract payments for secured services. Some of these payments flow directly from the MSA to bus operators, and others through grants provided to Durham and Northumberland County Council's, and Nexus.

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.

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.

Overall, the financial case concludes that 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. The Integrated Settlement will provide the majority of funding required with the option to utilise other sources also available to the MSA if required. Ultimately, while uncertainties remain over future financial conditions and budgetary needs and allocations, the MSA is well-positioned to navigate these challenges with the quantum of funding sources available to it.⁸

Financial modelling⁹

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

⁷ Franchising would significantly expand the role of the public sector in delivering local bus services. The FSA assumes that franchising will be operationally delivered by a public sector executive body responsible for planning, procuring and managing bus franchises (and other transport services). This body is referred to in the FSA as the Delivery Body (DB).

⁸ Please note this wording has been updated in response to feedback received from the auditor to further clarify that Integrated Settlement will provide the primary source of funding.

⁹ Please note this figure and others included in this paragraph have been updated compared to the figures presented in the FSA due to corrections made to the modelling during the audit process.

franchising scheme is compared. The current public-sector funding into the bus network is assumed to continue in both the EP and franchising cases.

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.

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 £113.0 million (nominal, £82.8 million in 23/24 prices) in the first 10 years of franchising – rising to £437.8 million by the end of the 30-year appraisal period¹⁰ – including an anticipated investment of £35.8 million before the first services are franchised (the 'core scenario'). 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. The longer-term funding requirement will be influenced by policy decisions on the future of these interventions taken by elected members after the initial ten years, which will consider both the effectiveness of these interventions and wider economic and market conditions¹¹.

The Integrated Settlement (IS) will be the source of this investment in the core scenario. 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.

Franchising summary table¹²

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	FY48/49	FY58/59	Total
Investment needed for Franchising	28.4	3.0	4.3	11.2	8.2	2.7	(4.5)	(0.3)	2.5	7.1	11.8	16.7	21.9	18.1	9.6	437.8
Cumulative Investment needed for Franchising	28.4	31.5	35.8	46.9	55.2	57.9	53.4	53.0	55.5	62.6	74.4	91.1	113.0	299.4	437.8	

¹⁰ Please note that this figure, and the following paragraph discussing the Integrated Settlement, have been added in response to feedback from the auditor requesting further clarity around the long term cost of franchising, and how the funding gap will be met.

¹¹ Please note this sentence has been included in response to feedback received from the auditor to clarify how the policy decision will affect future funding requirements.

¹² Please note that figures in red indicate periods in which the network is generating surplus revenue.

Sensitivity testing

Sensitivity testing over the first 10 years of franchising shows how the investment needed could be affected by changes in key assumptions. The most consequential of these sensitivities could increase the investment needed by up to £160.6 million; however, the least consequential could increase investment by as little as £1.7 million. Other sensitivities have the potential to decrease this investment by up to £156.9 million due to higher population growth than forecast.

Commercial case summary

The commercial case considers the commercial arrangements for the future delivery of local bus services in the North East, including whether operators will be interested in bidding for and operating services under the proposed franchising model.

Continuing with the current EP and making the proposed franchising scheme are both commercially viable options for the future delivery of bus services in the North East. Franchising, however, performs better against the commercial objectives and gives the MSA significantly greater ability to deliver the wider strategic objectives for bus reform.

Commercial objectives

Six commercial objectives have been adopted to inform the development of the franchising model and the commercial assessment of options. Achievement of the commercial objectives facilitates achievement of the bus reform objectives established in the strategic case.

Collectively, the commercial objectives seek a model applicable across the region which stimulates competition, achieves best value for taxpayers while balancing risks, maintains opportunities for small and medium sized operators, and allows the public sector to influence the network and the outcomes it delivers – while ensuring that any transition between operating model is timely, practical and sustainable.

Franchising commercial arrangements

The commercial case sets out the commercial arrangements currently in place under EP and then details how franchise contracts will be structured and procured, including the length of contracts, how services will be allocated to contract packages, and arrangements linking payments to operators to their performance.

Franchising would be rolled out across the North East following a structured transition process, in which deregulated operations would be replaced by franchised operation, with operators bidding to run franchised services through competitive procurement processes run by the MSA/DB.

Key features of the MSA's intended commercial model for franchising are:

- Public sector control of key revenue and patronage levers such as network design, branding, marketing, and fares and ticketing. The MSA/DB 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.
- Operators are assumed to provide the vehicles required to fulfil local service contracts, with the MSA operating a Residual Value Mechanism (RVM). Vehicles themselves will need to comply with a specification set by the DB. Specification is

assumed to align to existing industry standards. No incremental change is assumed in vehicle standards between the EP and franchising options.

- Most services would be lotted into one of five large contract packages (each with a PVR between 110 and 200 and served by one or more 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.

The first franchised services, covering approximately 20% of the network, would begin operation in Autumn 2029. A further tranche covering 40% would then launch in Autumn 2030, with the final 40% completing the franchised network in September 2031. This approach balances the ability to deliver the benefits of franchising with the operational practicalities and reduces the risk of disruption for passengers, bus staff, and the broader general public.

The MSA has provided information on the proposed commercial model and asked operators – including those not currently operating in the North East – whether they would be willing to bid for contracts under the proposed commercial model. Operators' responses were positive, indicating that there is sufficient market appetite to bid for and deliver franchise contracts.

Management case summary

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

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 franchising scheme.

EP

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.

There is capacity in the region's existing public sector transport delivery establishments, including the MSA, Nexus, Durham County Council, and Northumberland County Council, 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.

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. These risks include:

- A decline in commercial patronage and profitability which 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

Franchising would 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)¹³.

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 Full Time Equivalent would be required to deliver franchising across functions such as operational management, commercial development and customer experience. This represents an increase of 47 Full Time Equivalent roles compared to the status quo, with salaries and on-costs totalling £2.34

¹³ Franchising would significantly expand the role of the public sector in delivering local bus services. The FSA assumes that franchising will be operationally delivered by a public sector executive body responsible for planning, procuring and managing bus franchises (and other transport services). This body is referred to in the assessment as the Delivery Body (DB).

million per annum, These roles are additional to the MSA, Nexus, Durham County Council and Northumberland County Council's current establishment as well as current operator staff.

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.

The CA/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.

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.

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.

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.

Overall conclusion of the FSA

This FSA has assessed the option of making a franchising scheme against continuing with the current EP.

The FSA sets out that introducing a bus franchising scheme would be a significant undertaking and would transfer extensive responsibilities' to the MSA. This will include taking financial responsibility for the bus service, assuming responsibility for providing bus depots as well as keeping around 317,500 bus passengers a day informed and satisfied with their journeys. It also concludes that franchising represents an opportunity, the assessment concludes that franchising would be affordable, feasible and deliverable – offering benefits including significantly greater value for money, increased public influence, and greater fulfilment of the MSA's strategic objectives, such as the Mayor's Local Transport Plan's aim of creating a green and integrated transport network that works for all.

The assessment has undergone an independent audit, as none of the findings of the audit have had an impact on these conclusions this provides assurance to the case.

In line with the rationale articulated above and conclusions of the five cases, the FSA accordingly recommends that the North East Mayor makes the proposed franchising scheme.

Executive summary of the equality impact assessment

The Local Transport Plan sets out the MSA's aim to create a transport network that works for all. Reflecting this aim, an Equality Impact Assessment has been prepared to consider how introduction of the proposed franchising scheme would impact on those with protected characteristics. The Equality Impact Assessment has been appended to this document as Appendix 5.

An examination of relevant information on bus use and bus travel concerns has helped the MSA conclude that the improvements to the bus service that may result from the introduction of the Proposed Franchising Scheme could have a positive impact on the protected characteristics of age, disability, gender reassignment, race / ethnicity, sex, religion, and sexual orientation. This is largely due to increased use and reliance on buses amongst many people with protected characteristics.

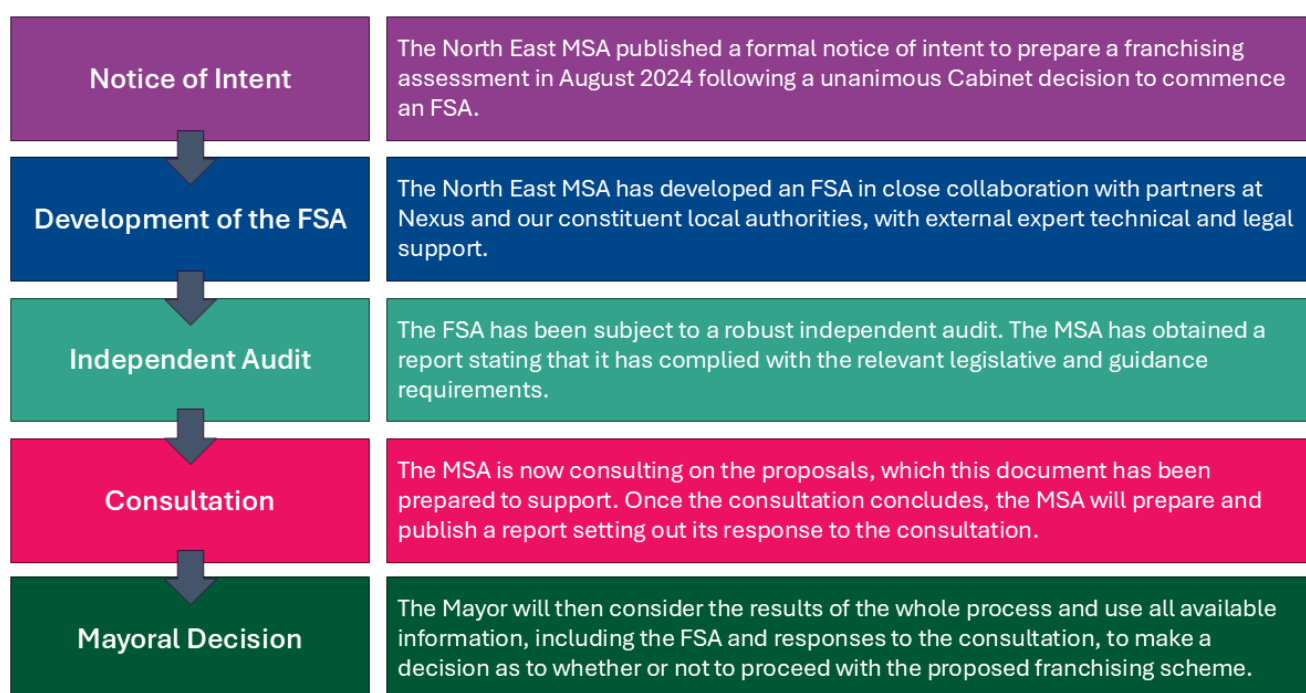
Insights from the Equality Impact Assessment have informed the design of this consultation which seeks to ensure that those with protected characteristics have an opportunity to respond to proposals outlined in the FSA.

The assessment process

The Transport Act 2000 as amended by the Bus Services Act 2017 and the Bus Services Act 2025 ('the act') sets out powers for local transport authorities, such as the North East MSA, to reform their local bus markets.

The bus reform options under the act include franchising, and the act requires a local transport authority that is interested in pursuing franchising to prepare an assessment of their proposed scheme, hereafter referred to as the 'franchising scheme assessment' (FSA).

The legal process to be followed by local transport authorities when preparing an FSA is detailed in the [Department for Transport's 'Setting up a bus franchising scheme' guidance](#), most recently updated in January 2026, which outlines the legal process that an authority is required to follow before they can introduce franchising in an area. This process is summarised below:



Description of the franchising scheme

The proposed franchising scheme is the draft of the legal scheme which is required to be made in accordance with the Transport Act 2000 in order to implement franchising across bus services in the North East. The draft proposed franchising scheme is appended to this document as Appendix 4.

The scheme will cover the whole area of the North East MSA, meaning the local authority areas of:

- Durham County Council
- Gateshead Council

- Newcastle City Council
- North Tyneside Council
- Northumberland County Council
- South Tyneside Council
- Sunderland City Council

Applying the proposed franchising scheme across the entire MSA region builds on the geographical boundaries of the current EP, recognises the interconnected nature of the region’s geography and economy, and reflects that the MSA and LTP’s aims to deliver an integrated regional transport network that works for all.

The proposed scheme will apply to the whole of the region from the date that it is made, however franchising will initially be implemented in three tranches which are expected to launch in September 2029, September 2030, and September 2031, with indicative tranches shown below. The order in which these tranches are implemented if the proposed franchising scheme is made is subject to change during implementation planning. A phased approach balances the need for timely change with the practicalities of running major procurement exercises while mitigating risk of disruption for passengers, staff and operators. The table below outlines the content of these tranches. Maps of the routes contained in each packages can be found attached as Appendix 6.

Month	Large packages	Small packages
September 2029	A: Washington and Riverside depots	7 services with PVR ¹⁴ s between 1 and 3
September 2030	B: Deptford, Sunderland and South Shields depots	12 services with PVRs between 1 and 3
	C: Belmont and Consett depots	35 services with PVRs between 1 and 11
September 2031	D: Percy Main, Ashington and Blyth depots	17 services with PVRs between 1 and 5
	E: Slatyford and Walkergate depots	14 services with PVR between 1 and 13

Each tranche will contain a combination of large and small contract packages. Large packages will be based around two or more depots, while small packages will be let on a service-by-service basis. Small operators are anticipated to be well positioned to bid for these contracts or combine them into a group bid. Franchised school services will be provided under separate contracts and are not included in the figures above.

The proposed scheme specifies that services will begin franchised operation no less than six months from the date the relevant local service contract are entered into.

¹⁴ Peak Vehicle Requirement – The number of vehicles required to operate a service (or groups of services) at the highest frequency scheduled.

The MSA intends for all services that operate entirely within the MSA area to operate under a local service contract, with the exceptions of:

- Services providing transport for pupils to and/or from schools within the MSA's area which do not provide transport to the general public¹⁵
- Services providing transport to pupils with special educational needs and disabilities that live within the MSA's area to and/or from schools or other placements within or outside the MSA's area where these do not serve the general public.
- Metro, Ferry and rail replacement bus services¹⁶.
- Services required due to temporary road closures.

Franchising can only apply to local bus services. Other types of provision not operating as local bus services (such as private hire) are automatically outside the scope of franchising.

Cross-boundary services with a majority of their journey time inside the North East will generally be provided as franchised services (legally operating as a secured service outside the MSA area), unless:

- the service is procured by a neighbouring local transport authority; or
- including the service in the franchising scheme risks an adverse impact on the commercial network in the neighbouring local transport authority area.

Services with less than half their journey time inside the North East, or which are procured by a neighbouring authority, or which meet the criteria above, will generally instead be subject to the service permit regime.

The Mayor is expected to make their decision as to whether or not to implement the proposed franchising scheme in March 2027.

Once the scheme has been implemented, the MSA will consult Transport Focus (at a minimum) within 36 months of the first franchised services operating to seek the views of users on how well the scheme is working.

The MSA recognises the important role that small-and-medium sized operators have in the current bus market and their experience in providing secured services and transport links in the region's rural communities.

small-and-medium sized operators have been considered in the design of the proposed commercial model for franchising, and will have opportunities including:

- **Providing services under small contracts:** around 20% of the network will be tendered as small contracts with low resource requirements, a significant increase on the 13% currently procured as secured services.
- **Participating in large contracts**, either bidding independently, as part of a consortia, or as sub-contractors.
- **Schools services:** small-and-medium sized operators commonly operate schools services and the proposed franchising model retains this avenue of work.

¹⁵ Referred to in the commercial case of the FSA as "type 3" (registered schools services that also take payment from 'unentitled' scholars that are not eligible for BSOG)".

¹⁶ Replacement rail and tram services are automatically exempt from the proposed franchising scheme in accordance with section 123J(8) of the Act.

- **Non-franchised services.** Opportunities will remain available for services not procured as part of franchising – such as those outside the scope of the franchising scheme or which are subject to a service permit.

Full summary of the FSA

This section summarises the findings of the FSA in sufficient detail to inform responses to the long questionnaire of this consultation. For further information please refer to the full FSA. Please note that throughout summary there may be instances where totals do not appear to sum from the constituent parts, this is due to rounding¹⁷.

The FSA compares the proposed franchising scheme to the current EP. The FSA follows the five-case model for business cases and includes the following:

- **Strategic case:** sets out the available options for bus reform (in the North East, franchising or continuation of the existing EP), establishes a case for change, and assesses whether introducing franchising would better support the achievement of regional policies compared to continuing with the current EP.
- **Economic case:** assesses the economic impact and value for money of the options.
- **Financial case:** assesses the financial implications and whether the options are affordable.
- **Commercial case:** sets out the commercial arrangements for the delivery of local bus services under both options and assesses whether the MSA has a commercially viable approach to franchising.
- **Management case:** considers how the MSA would make and operate the proposed scheme.

¹⁷ Clarification regarding rounding has been added at the request of the auditor.

Strategic case summary – Introduction

Purpose of the strategic case

The strategic case considers why bus reform is needed in the North East, sets out the bus reform options available to the MSA, assesses how the options contribute to the MSA's implementation of its Local Transport Plan (LTP) and other relevant policies affecting local services as well as the contribution made to implementation by relevant neighbouring authorities of their LTPs and policies affecting local services and whether introducing the proposed franchising scheme would better support this and the achievement of strategic objectives developed by the MSA compared to continuing with the current Enhanced Partnership (EP).

Geography of the North East

The North East is home to around two million people, covering one of the largest and most diverse areas of any mayoral strategic authority in England with both dense urban centres and some of the most remote communities in the country. 21% of residents live in rural areas, slightly above the England average outside London, with this rising to 45% in Northumberland and 44% in County Durham. The North East also has a higher proportion of people living in rural towns and fringe areas (14.6%) than England overall (10.4%).

These differences shape how people travel. Bus use is much higher in Tyne and Wear than in Northumberland and County Durham, reflecting the national trend that buses are used more in urban areas. Nearly 35% of North East residents live in neighbourhoods that are among the most deprived 20% nationally, and 28% of households here have no access to a car or van, compared to 20% in England outside London. Annual bus use per person in the region (52.3 journeys) is significantly higher than the England average outside London (35.95).

The bus network is generally densest in the region's urban and coastal areas, which also tend to experience the highest levels of deprivation. However, the North East is unusual in experiencing significant rural deprivation too, with seven of the ten most deprived rural areas in England located in County Durham in 2025.

Understanding these patterns is important when considering how well transport meets people's needs. Transport for the North's assessment of Transport Related Social Exclusion (TRSE) highlights where poor transport provision limits access to jobs, services and opportunities. According to this analysis, 31% of North East residents, around 602,000 people, are at risk of TRSE. This is substantially higher than the average for both Northern England (18.97%) and England as a whole (19.8%).

Structure of the local bus market

Bus services outside London have operated in a deregulated market since 1986, with operators setting routes, timetables, fares and service standards independently. While deregulation aimed to increase competition and improve services, the market in the North East has evolved in a way that limits competition in many places.

Three large operators, Go-Ahead, Stagecoach and Arriva, now account for around 98% of the market by ridership, with most localities effectively served by a single operator and competition largely confined to a small number of main urban corridors.

Operators provide services with a fleet of approximately 1,220 buses. Most buses in the North East fleet are owned by the respective operator, which is the traditional approach throughout England. High frequency core routes will typically see investment in new buses every five years with older buses then cascaded to secondary and tertiary routes.

Operators are also major employers in the region. Across the North East there are around 4,000 people working for bus operators of varying sizes engaged in roles that include drivers, engineers, and back-office support staff.

The public sector funds services that are socially necessary but not commercially viable. These secured services are commissioned locally by Durham County Council, Northumberland County Council and Nexus, provided by a mixture of operators through competitive tendering, making up roughly 13% of the regional network. Alongside the large operators, 19 small and medium-sized operators are active in the market. Small-and-medium sized operators account for approximately 2% of the total market share by ridership. Secured services are a particularly important market for small-and-medium sized operators, who operate approximately 45% of the total number of registered secured services in the area..

Most services, however, are run commercially, covering about 45 million miles a year which is 87% of the total network mileage. These services are concentrated in and between the region's key urban centres, particularly around Newcastle and Sunderland. Large parts of the region, including northern Northumberland and western County Durham, have no wholly commercial bus provision. This uneven pattern of provision, together with limited head-to-head competition, impacting the effectiveness of the current deregulated market in meeting the region's transport needs.

Enhanced Partnership and other public sector responsibilities

An Enhanced Partnership (EP) is a statutory partnership between the public sector and local bus operators, setting out how both sides will work together to deliver agreed improvements while retaining the deregulated market. The scope of an EP is shaped heavily by negotiation, as operators must agree to the measures included and are able to object to proposals they cannot accept where statutory objection thresholds are met. Both operators and authorities are legally required to comply with the commitments agreed as part of the EP and the Traffic Commissioner can take enforcement action where operators fail to meet the agreed standards.

The North East introduced its EP in March 2023 following negotiation and consultation with operators, which has enabled the introduction of negotiated and agreed improvements to local bus services, such as the popular package of 'The Mayor's Fares'. Most bus services in the region must meet the standards set out in the EP Scheme, which includes both operator requirements and public sector facilities and measures. Alongside the EP, the public sector delivers a wide range of responsibilities that support the network and aim to make

services more attractive. These include commissioning socially necessary secured services, administering the English National Concessionary Travel Scheme (ENCTS), delivering the region's capped fares scheme (including the £1 under-22 fare and £2.50 adult single), providing fuel grants, maintaining key infrastructure such as bus stations, stops and shelters, providing passenger information, leading the regional transition to zero-emission buses and depots, and undertaking activity to improve safety on the network, including research on the experiences of women and girls.

These responsibilities require substantial public funding from central government, the strategic authority and local authorities. Overall public sector financial support for bus services in 2024/25 is estimated at £123 million – around 51% of all operator revenue in that year. Some interventions – such as fares interventions – depend on complex commercial negotiations with operators to agree reimbursement mechanisms; transparency and competition is often limited, and it is challenging to ascertain the value for money of these arrangements.

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 have been instances where operators have undertaken limited engagement with communities prior to network changes, despite the presence of an agreed Code of Conduct.

Network data and trends

Bus use in the North East has been in long-term decline, reflecting wider national trends but at a sharper rate than average. A range of factors lie behind this, including rising car ownership, and the impact has been visible both in falling patronage and in reductions to the size of the network. The Covid-19 pandemic accelerated this decline significantly: patronage dropped to 51 million trips in 2020/21 from 142.3 million just two years earlier, and although usage has begun to recover, it remains well below pre-pandemic levels. Since 2010, bus use per head has fallen substantially across the region: by 34% in Northumberland, 37% in County Durham and 35% in Tyne and Wear, with all areas experiencing a steeper decline than comparable metropolitan and non-metropolitan areas in England.

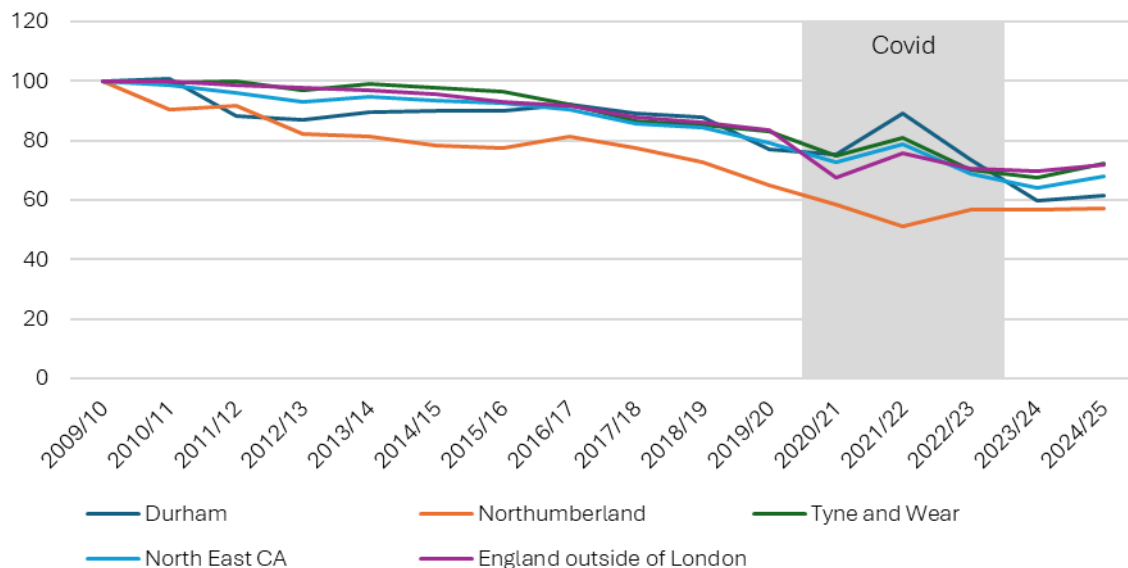
Recent years have seen some positive signs. Patronage rose from 107 million journeys in 2023/24 to 115.9 million in 2024/25, an 8% increase and the first sustained rise (outside immediate post-pandemic recovery) since 2018/19. This improvement is likely to reflect a mix of factors such as the regional capped fares scheme, investment delivered through the EP and Bus Service Improvement Plan funding, the recovery from previous strike action and wider post-pandemic adjustment. Despite this growth, ridership remains below historic levels and the longer-term trend continues to show decline, influenced in part by ongoing changes in how and when people travel following the pandemic.

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



The network itself has also contracted considerably. Since 2009/10, total bus mileage in the North East has fallen by 32%. There is marked variation across the region: mileage has reduced by 39% in County Durham, 43% in Northumberland and 28% in Tyne and Wear. This reduction has resulted in a significant shift in provision, with some communities losing services altogether and others experiencing reduced frequencies or cuts to evening and Sunday services.

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)



If these trends continue, the region is unlikely to meet its wider social, economic and environmental objectives, and the impact on communities – particularly those with fewer travel alternatives – is expected to become increasingly severe

Case for change

The bus network requires significant public sector investment, in financial year 2024/25 around 51% of operator revenue was funded by the public sector. Despite this investment, the long-term decline in patronage and mileage continues. The case for change has identified the following challenges in the status quo:

- **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.
- **Accountability to communities.** There is limited ability for local communities to influence the bus service in their area. Operators dictate the pace, frequency and nature of any service changes which, while often necessary from a commercial perspective to minimise costs and maintain profitability for operators, are highly disruptive to passengers.
- **Punctuality and reliability.** Punctuality in the North East sits below the performance expected by the Traffic Commissioner (although it 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.

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.

If the MSA is to achieve the aim of the Local Transport Plan 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.

The Local Transport Plan

The Mayor's Local Transport Plan sets the vision for a "green, integrated transport network that works for all".

The Local Transport Plan reflects the important enabling role that transport has in achieving the MSA's wider ambitions through supporting a more inclusive economy, a better environment and a healthier North East. Delivering the Local Transport Plan's ambition is therefore essential to achieving the MSA's transformative aspirations for the region.

The Local Transport Plan explains how the transport network should operate and how passengers should experience it through five key focus areas:

- **Planning journeys, informing users and supporting customers:** Information, help and assistance should be easily available before, during and after journeys, with accurate, trusted live information and a strong, integrated network identity to give people confidence in making greener journeys.
- **Ticketing and fares:** Fares and tickets should be simple, affordable and easy to use, enabling travel across the region and between transport types without needing multiple tickets, and supported by smart, capped payment systems.
- **Reach and resilience of infrastructure:** The network should extend to all communities, including rural and coastal areas, and be able to withstand disruption and severe weather, ensuring reliable connections where they are most needed.
- **Safety, especially for women and girls, and wider service quality:** People's safety should be central to the network, with safer stops, better lighting, trained staff and prompt responses to concerns, alongside consistently high customer service standards and accessible vehicles and infrastructure.
- **Connections between different transport types:** The region should operate one highly interconnected transport system, with coordinated timetables and easy interchange between bus, Metro, ferry, rail, walking, cycling, taxis and other modes.

Cabinet unanimously decided to publish the Local Transport Plan in March 2025, following extensive consultation in which the Local Transport Plan received strong public backing. 16,000 responses were received from across the region, with more than 80% supporting its ambition for a green, integrated transport network that works for all.

Bus reform objectives

Six strategic objectives with 13 intended outcomes have been adopted for the project. These have been directly shaped by the Local Transport Plan's ambition and five key focus areas, translating the aspiration in the Local Transport Plan to specific and measurable objectives for the future of the bus network.

These objectives and outcomes collectively reflect what the MSA wants buses to deliver: reliable, accessible, safe and valued services that work as part of an integrated transport network to achieve wider economic, social and environmental goals.

Individual objectives and outcomes are set out below. These provide the framework for assessing how well the different bus reform options can support delivery of the Local Transport Plan and contribute to the region's wider missions.

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 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.

Option selection

Statutory franchising guidance requires that an assessment compares making the proposed franchising scheme to continuing with the current EP.

To determine the scope of the current EP option, the MSA engaged with local operators in March 2025. Operators did not object to using the current EP as the comparator and did not propose any additional improvements to the EP for the assessment.

The MSA previously commissioned a detailed external feasibility study into all available bus reform options, which considered the extent to which different options could achieve the authority's objectives. This concluded that franchising and EP-based options had the greatest ability to meet objectives and were the most deliverable options.

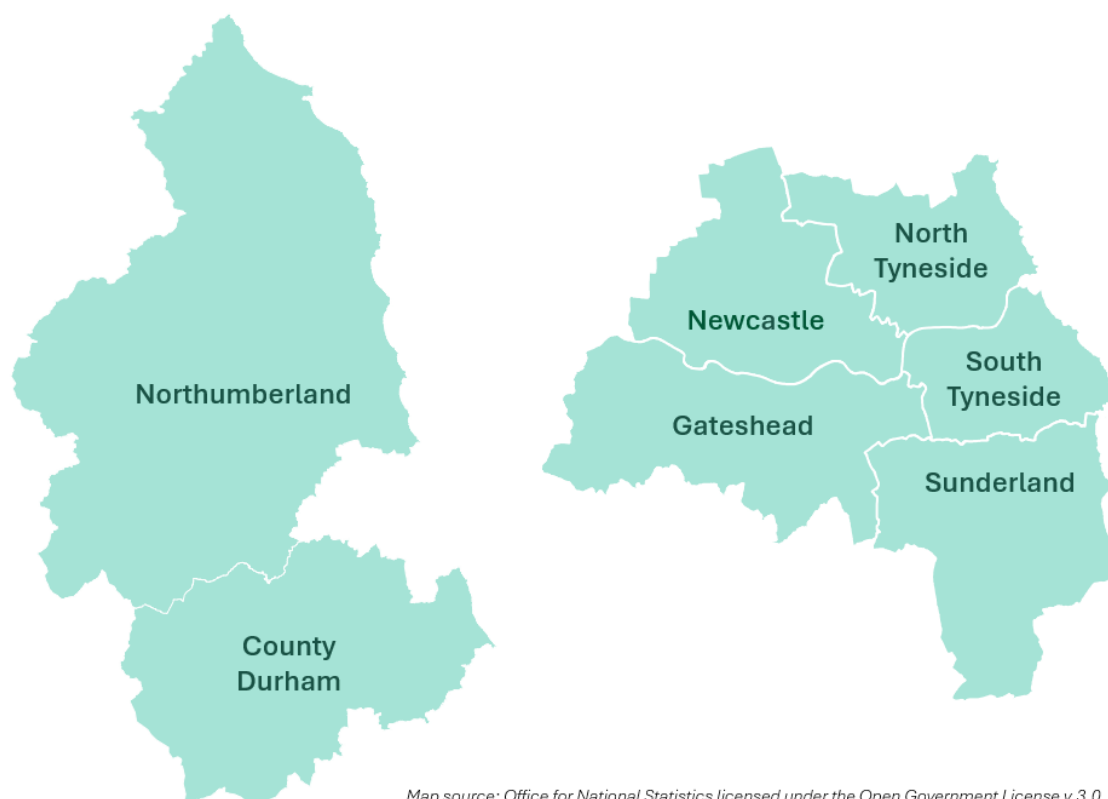
Although the Bus Services Act 2025 now permits the establishment of municipally owned bus companies, an update to the feasibility study determined that franchising and EP-based options remain the most effective and deliverable options. Reflecting this conclusion, municipal ownership is not an appraised option in this assessment. A municipal bus company would operate within the regulatory structure set by an EP or franchising; this does not preclude the Mayor and Cabinet from taking a future decision to establish a municipal bus company under either delivery model.

The FSA therefore appraises two options – continuation of the current EP and making the proposed franchising scheme.

Geographic scope

The North East is an interconnected geography. Residents regularly travel across local authority boundaries with 175,000 people commuting between local authorities within the North East each day across all modes of transport.

North East local authorities



*Map source: Office for National Statistics licensed under the Open Government License v.3.0
Contains OS data © Crown copyright and database right 2022*

The North East also represents an established political and transport geography. The MSA is the Local Transport Authority for the region, with the Local Transport Plan and EP already in place. The Mayor's manifesto commitments were democratically endorsed by voters across the region – including receiving the most votes in each local authority area.

Not applying the intervention across the North East would significantly undermine the ability of the MSA to deliver the Local Transport Plan's objectives. A partial and fragmented approach would weaken efforts to improve integration, simplifying fares and ticketing and ensure consistent standards across the region. It would also confuse future political accountability as the North East MSA would be responsible for the network in part, but not all of the region.

The FSA therefore considers the two options across the North East MSA area. This comprises the local authority areas shown in the map below.

The MSA has met with neighbouring transport authorities on the implications of franchising for their areas during the development of the FSA, with discussions particularly focused on the impact on the 35 local bus services which cross between the North East and other transport authorities. Such discussions were considered as part of developing the approach to cross-boundary services, with the commercial case providing further information on how these services will be provided. Further engagement will be required to ensure that any

impact on these services is appropriately identified and mitigated prior to the commencement of franchised services.

Travel offer under franchising and the Enhanced Partnership

High-level comparison of options

Category	EP	Franchising
Branding	Branding is primarily determined by individual operators with multiple visual identities across the network. Some public sector branding applied to fares initiatives and at bus stops and stations.	Consistent Angel Network branding applied across buses and the wider public transport network – including vehicles, passenger information and bus stops and stations.
Customer experience	Passenger information and customer contact provided by operators with differences between companies. Public sector passenger information and passenger charter supplement operators' offering.	DB becomes a single point of contact for passengers by providing journey information through an app and website, responding to customer complaints, and handling lost property queries. Customer charter continues to apply.
Fares and ticketing	Operators are legally required to set their own fares in most circumstances with The Mayor's Fares products supplementing existing operator fare offerings. Fares are assumed to increase annually at RPI+2%.	Fares are set by the MSA across the network, with a simplified and integrated fares offering introduced. Fare increases will be limited to RPI by the MSA for (at least) ten years.
Network	Operators determine routes, frequencies and service changes for most services based on commercial priorities. A small proportion of the network is procured and subsidised by the public sector. Network contractions of 3% per annum are expected.	Network, including routes and frequencies, are determined by the MSA and specified in franchise contracts. Local authorities and communities will have significantly greater ability to influence network design decisions and the size of the network will be maintained for (at least) ten years.
Accessibility	Accessibility standards (beyond those legally required) vary by operator as these depend on individual fleet choices and	The MSA becomes able to specify potential future accessibility improvements

Category	EP	Franchising
	decisions. Future accessibility improvements would need to be delivered through negotiation with bus operators.	through local service contracts in future procurement rounds.
Passenger safety	Operators are primarily responsible for passenger safety. Future initiatives and improvements would need to be delivered through negotiation with bus operators.	The MSA assumes strategic responsibility for safety across the network and can specify future interventions through local service contracts. Safety officers would be deployed across the network.
Fleet	Decarbonisation continues (subject to funding and operational uncertainties and challenges). Grant funding used as mechanism to provide requisite funding to operators to decarbonise fleets and depots.	Decarbonisation continues (subject to funding and operational uncertainties and challenges). Mechanism changes to specification of ZEBs through local service contracts which is likely to simplify investment, and de-risks the investment proposition for operators through use of a Residual Value Mechanism (RVM), enabling operators to pass on a vehicle for its value at the point of transfer ¹⁸ .
Employment standards	Employment standards and conditions are set by each operator. There are variations in pay, training and employment practices across the network.	Operators remain responsible for staff employment, but MSA sets baseline requirements (including Shine accreditation and paying the Real Living Wage) through local service contracts.

¹⁸ Further detail has been added to this point following feedback from the auditor in order to more clearly differentiate the approach to fleet across both options.

Further investment opportunities under franchising

In addition to the franchising model appraised in the FSA, a number of supplemental further investment opportunities will be available to the Mayor and Cabinet. These offer opportunities to strengthen franchising and realise the Mayor's ambition for the region, though do not form part of the core franchising proposition and are subject to funding.

These further investment opportunities include:

- **Introducing free travel for under 18s** in line with the Mayor's manifesto commitment. This is estimated to cost £17 million per annum.
- **Harmonising and improving the concessionary travel offer** by removing peak travel restrictions and uplifting the offer to the most beneficial element for passengers across the region. This is estimated to cost between £8.4 million and £10.2 million per annum.
- **Growing the network and increasing reliability** by running additional buses. Growth in rural areas would be prioritised first, in line with the Mayor's aspiration for the best rural bus network in the country. 50 additional vehicles and associated staff would require approximately £17 million per annum, less revenues generated by these services.
- **Delivering a zero-emission fleet.** Decarbonisation could be progressed through purchasing additional ZEBs coupled with necessary depot upgrades. A decarbonised fleet is estimated to require approximately £160 million in capital expenditure, plus additional investment for depot upgrades.

Further work is required to refine proposals and costings outside of the FSA process. Additional business cases will be developed and brought to Cabinet for decision in due course.

Assessment against objectives

Objective	Outcome	Delivery Option		Summary of assessment of options against objectives
		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			Franchising performs better because it enables one fully integrated app and website for all modes, with unified journey planning, fares, disruption updates and customer support. Under the EP, passengers would still rely on multiple operator systems, meaning information and support remain fragmented and inconsistent.
	A unified and integrated North East transport network			Franchising performs better because it allows the MSA to act as the single "guiding mind" for the network, replacing today's fragmented commercial networks with an integrated system planned as a whole. Franchising enables consistent branding, unified fares and ticketing, integrated passenger information, and aligned incentives across bus, Metro and Ferry, creating a genuinely joined-up network.
	Bus fares should be affordable and tickets should be easy and simple to use.			Franchising scores higher as it allows the MSA to create a single, simplified fares structure across the whole network without relying on complex commercial negotiations or opaque reimbursement mechanisms.
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles			While franchising and the EP score the same, franchising still offers some advantages: if future funding were available, it would give the MSA the ability to specify vehicle and emissions standards across the whole network, plan depot upgrades more coherently, and use competitive tendering to secure cost-effective decarbonisation solutions.
	Information, including real time information, should be accurate,			Franchising performs better because it enables one unified website and app that becomes the single

	integrated and accessible through a single source			source of real-time information across the whole integrated transport network, replacing the multiple operator systems that passengers currently have to navigate under the EP. Under franchising, a single source of truth and consistent off-bus information create a simpler, more reliable and fully integrated system.
	The delivery model encourages use of bus as part of a multi modal network			Franchising is better placed to deliver this outcome as the scheme would enable the creation of a genuinely integrated multimodal network with consistent branding, information and fares, making it far easier for passengers to move seamlessly between bus, Metro and other modes.
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled			While franchising and the EP score the same, franchising still offers advantages: it hard-wires a clear contract-based performance regime with bonuses/deductions linked directly to punctuality and reliability, and lets the public sector capture the benefits of bus-priority investment.
Make the bus network resilient	The bus network should be financially sustainable and resilient in the long term			Franchising scores higher because the EP would require operators to make substantial cuts to mileage and raise fares in order to return to their target profit margins, resulting in a smaller, less resilient network and the risk of communities losing services.
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			Though franchising and the EP score the same, franchising still offers important benefits: it allows the delivery body to specify and roll out enhanced accessibility standards consistently across the whole network, and its policy to maintain network size for ten years preserves more routes than the EP, providing greater certainty of access even though the core accessibility features are available under both options.

	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible			Franchising performs better because it enables a larger, more regionally balanced network than would be commercially viable under the EP. The MSA can maintain wider coverage, use cross-subsidy across the whole network, and direct revenue to preserve and enhance links in any community.
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			Franchising performs better because it allows the MSA to apply consistent safety measures across the entire network without requiring operator agreement. Franchising will include the introduction of customer safety officers, and will enable uniform safety communications and create a single point of contact for reporting incidents, creating a clearer, more coherent and more proactive safety offer – particularly important for women and girls.
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			Franchising performs better because it sustains a larger, higher-ridership network, enabling buses to contribute more effectively to economic growth, carbon reduction and public health.
	North East residents should be advocates of the bus network			Franchising will enable the improvements that residents have said would increase their use of sustainable travel improvements – integrated ticketing, simpler fares, and clear, consistent passenger information.

Strategic case conclusion

The MSA has clear ambitions to expand opportunity, support well-paid jobs, improve transport connections, build a greener region and reduce child poverty. The Local Transport Plan emphasises the need for a “green, integrated transport network that works for all”, enabling inclusive growth, supporting environmental goals, and improving public health. Buses will be central to achieving this: they are the most widely used form of public transport in the region, carrying 115.9 million passengers and covering 51.4 million miles in 2024/25, and providing essential links to jobs, education, healthcare and leisure – particularly in rural and coastal areas with fewer alternatives.

However, the wider context for bus services is challenging. Bus use in 2024/25 is only around one-third of its level in the mid-1980s, ridership has fallen by 51.5 million journeys between 2009/10 and 2024/25, with the network shrinking by 24.4 million miles during the same period. Decline has been widespread across the region, with mileage down 28% in Tyne and Wear, 39% in County Durham and 43% in Northumberland. The case for change identifies several issues with the status quo which must be addressed if the regional bus network is to reach its full potential.

In line with legislation and statutory guidance, the MSA has considered two for reform: continuing with the current EP or introducing a franchising scheme. Under the existing EP model, improvements would continue to rely on negotiated agreement with operators. Under franchising, the MSA would take control of planning the network and contract operators competitively to deliver the services it specifies. Assessment against six reform objectives, aligned with the Local Transport Plan, found that franchising performs better overall and provides significantly greater ability to deliver an integrated network centred on the needs of passengers.

Retaining the status quo would risk a continued decline in the network over the next decade. Compared to franchising, it is estimated that after ten years there would be 25.7 million fewer journeys annually, fares would be 22% higher in real terms, and 12.2 million fewer miles would be operated. The strategic case therefore concludes that intervention is needed to address long-term decline, and that franchising is found to be the bus reform option that would make the greatest contribution to the implementation of the mayor’s Local Transport Plan and its other relevant policies.

Economic case summary – Introduction

Purpose of the Economic Case

The economic case assesses the value for money (VfM) of the proposed franchising scheme (relative to the EP). The proposed franchising scheme and the existing enhanced partnership are the delivery options assessed in the FSA. It considers the impact of the proposed franchising scheme (relative to the EP) on the economy, environment, passengers, bus operators, public accounts (MSA and national accounts), and wider society. The economic model assesses the costs and benefits of implementing the proposed franchising scheme when compared to the EP over a 30-year appraisal period, and seeks to monetise benefits.

The summary of the strategic case presents a comparison of the arrangements under both delivery options.

Modelling and Key Assumptions

The cost of running the North East bus network (whether under an EP or franchising) is met by a combination of farebox revenue and public funding. This affordability equilibrium is affected by multiple demand and cost drivers, the legal and regulatory system under which buses operate, and the level of public funding available to subsidise services.

A demand and revenue model (DRM) has been built to forecast the changes in bus demand and revenue over a 30-year appraisal period under both delivery options. Outputs from the DRM and the financial model feed into the cost-benefit analysis which calculates welfare benefits and wider economic impacts associated with the delivery options. The DRM is influenced by exogenous and endogenous demand drivers. Exogenous factors influence the underlying bus demand under both options. Examples of such factors include population, car ownership, and economic growth. Endogenous demand drivers, on the other hand, influence demand more directly as they are the result of policy and operational interventions. Examples of such factors include fares policy and network management decisions.

The net effect of exogenous factors is a decline of bus demand in the absence of intervention. This expected decline in bus demand is in line with the decline in bus patronage seen over the last three decades.

The high-level assumptions taken on endogenous drivers are set out below:

Network Management

Operator profit margins have been on a long-term downward trend due to a number of factors, including declining demand for bus services, and increasing operating costs. Under the EP, it is assumed that network cuts will continue with a reduction in the total bus kilometres operated as shown in the table below. In combination with RPI fare increases set out in the following section, operators would be expected return to profitability (or higher levels of profitability where this had decreased) and secure their assumed target margin of 10% (averaged across all operators).

Under franchising (from 2029 onwards), it is assumed that the public sector will invest to maintain the network over the first ten years, with a return to the trends seen in network decline historically, and under the EP option, at the end of this period (see table below).

However, a future policy decision on network investment at the end of this ten-year period will determine whether this return to baseline trends manifest under franchising.

Change in total bus kilometres operated		
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.

Fares

Under the EP, it is assumed that fares increase by RPI+2% per annum to aid operators in returning to profitability and securing their assumed target margin of 10% (average across all operators).

Under franchising (from 2029 onwards), it is assumed that fares increase in line with inflation for the first ten years with a return to baseline trends at the end of this period. However, a future policy decision on fare levels at the end of this ten-year period will determine whether these trends manifest under franchising.

Fare changes		
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.

The franchising proposal described in the strategic case aims to introduce several ‘soft’ measures that are expected to improve the travel offer for passenger. These measures, which are expected to have a positive impact on demand, include ticketing simplification, changes to branding, marketing, and passenger information, and expected punctuality and reliability improvements through a performance regime. The expected demand uplifts resulting from these soft measures are provided below.

‘Soft’ Factors:

- **Ticketing simplification** under a franchised bus network is assumed to result in demand uplifts that are applicable to daily and season tickets.
- **Branding and marketing** improvements under franchising are assumed to result in a 5% and 1% uplift in demand respectively when compared to the EP option’s branding and marketing. These demand uplifts are phased in line with the rollout of each tranche of franchising.
- **Passenger information** improvements under franchising are assumed to result in 0.5% uplift in demand when compared to the EP option. This demand uplift is phased in line with the rollout of each tranche of franchising.

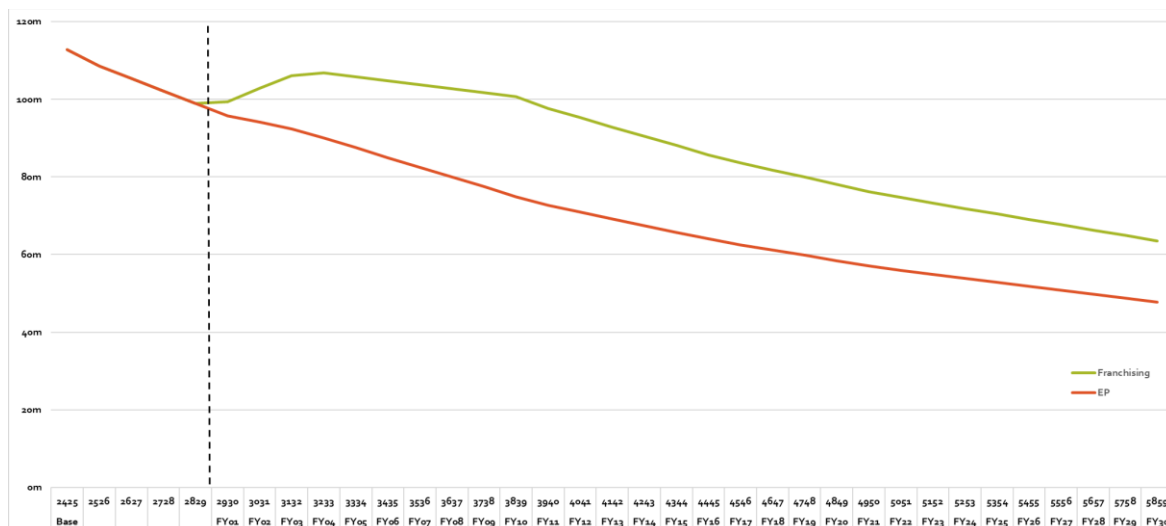
- **Punctuality and reliability** improvements under franchising have been assumed to result in a 1% uplift in demand when compared to the EP option. This demand uplift has been phased in line with the rollout of each tranche of franchising.
- **Bus improvement programmes** (installation of bus priority infrastructure and the delivery of bus stop improvements) are expected to result in a 2% demand uplift across both delivery options phased across four years from 2029/30.

The assumed demand uplift associated with each ‘soft’ factor is grounded in robust evidence from relevant research literature.

The operating cost of the bus network is primarily determined by the total vehicle kilometres operated by vehicles providing the service and the peak vehicle requirement (PVR). Operating costs forecasts have been constructed using detailed cost models summing up per-route variable and fixed costs. Examples of costs used to calculate forecasts include driver staff costs, fuel costs, and depot costs.

Demand and Revenue Forecast.

Demand Forecast (EP and Franchising), 2024/25 – 2058/59



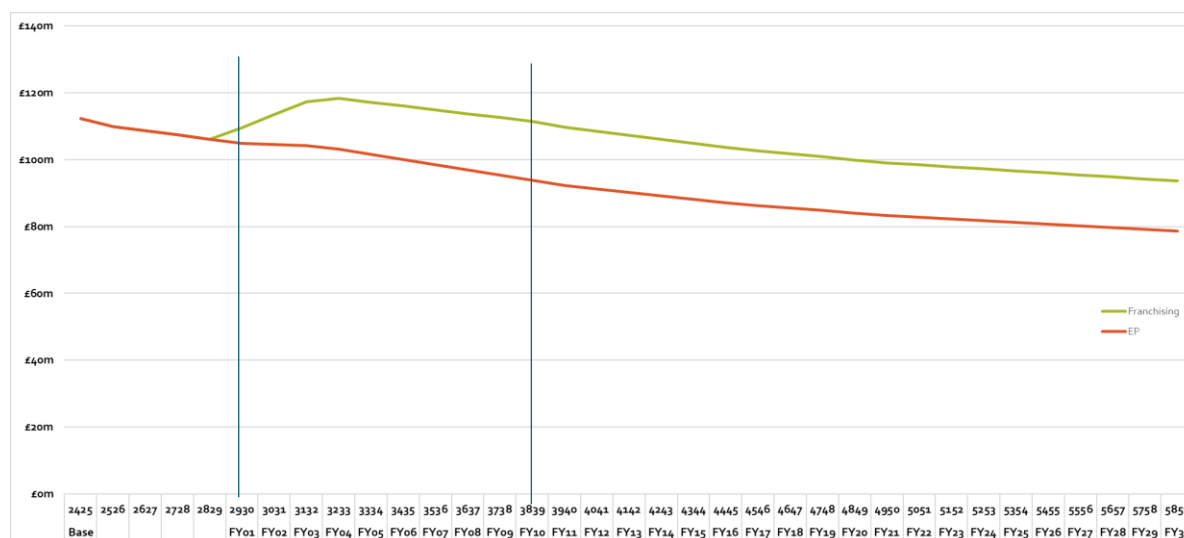
The demand forecast shows that bus demand will continue to decline from 2024/25 to 2028/29 in the pre-intervention period. This is in response to exogenous factors, network cuts (3% per annum) and above-inflation fare increases (RPI +2% per annum) in response to increased costs.

Demand will continue to decline under the EP 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.

The introduction of franchising, on the other hand, is projected to bring an immediate increase in the demand for bus services. During the first 10 years of franchised bus services, the network is projected to experience a limited decline in demand when compared to the EP.

By 2038/39 this decline is expected to leave the demand for franchised bus services at a marginally higher level than it was before franchising was implemented in 2028/29, and over 25 million passenger journeys higher than the EP option at the same point. In the absence of a political decision to continue investment at the end of the initial intervention period, the demand forecast reverts to baseline trends. However, even in this case, demand will be 15.7 million passenger journeys higher under franchising in 2058/59 than under the EP generating benefits to both passengers and the North East.

Revenue Forecast (EP and Franchising), 2024/25 – 2058/59



Revenue forecasts show a similar pattern to the demand forecasts. Exogenous factors that would impact the future demand for bus services are expected to also cause a long-term decline in the revenue realised by the bus network under both delivery options.

The introduction of franchising is, however, expected to lead to an immediate increase in the revenue realised by the North East bus network. Revenue is projected to decline after this initial increase in response to exogenous factors. If the public sector does not continue to invest in the network after the first 10 years (as is assumed), the franchised bus network’s revenues would remain higher than the pre-intervention bus network’s revenue for more than a year after the end of this period. As baseline trends return after the intervention period, the revenues realised by the franchised network will decline but, at the end of the appraisal period, the franchised network’s revenue will still be greater than that of the EP.

Impacts

The introduction of franchising is expected to have an impact on the economy, society, and the environment. These impacts are set out in this section.

Impacts on the Economy

- Franchising delivers travel time savings for business bus users by maintaining a more extensive network, which results in more frequent services and shorter wait times for these services. The reduced growth in car traffic under franchising as a result of the slower decline in bus demand creates travel time savings for business

road users. Franchising also limits fare increases, giving business bus passengers greater financial benefits in comparison to the EP.

- The business model of local bus service delivery changes under franchising with operator revenues being composed primarily of contract payments. The reduced financial risk to bus operators is expected to drive operators to accept lower margins. Ultimately, the introduction of franchising is expected to have a net positive impact for transport providers.
- The interventions to be introduced under franchising are not expected to directly support or enhance public transport accessibility to new developments. So, the material impacts of the introduction of franchising on regeneration have presently been judged to be neutral in comparison to the EP.
- The introduction of franchising is expected to have greater agglomeration¹⁹ and productivity benefits in comparison to the EP. Additionally, owing to the higher bus kilometres operated relative to the EP, franchising is expected to have a slightly beneficial impact on labour supply.

Impacts on the Environment

- Under franchising, the slower decline in bus demand is expected to reduce the growth of car traffic. This reduction in vehicle use is assumed to lead to lower noise pollution, improved air quality, and decreased greenhouse gas emissions relative to the EP.
- The introduction of franchising is expected to have a neutral impact on landscapes, townscapes, historic environments, biodiversity, and water environments in comparison to the EP.

Impacts on Society

- Franchising interventions such as improved passenger information, branding, marketing, improved punctuality and reliability will deliver additional benefits to non-business bus users e.g. improved journey quality. Under franchising, bus use is expected to decline slower than it would under an EP, resulting in more people travelling by bus. Bus travel involves more walking (e.g., to and from stops) and may also improve access to leisure and rural destinations. Therefore, it is likely to increase overall physical activity levels.
- Journey quality for bus passengers will be enhanced under franchising relative to the EP due to a range of interventions including simplified ticketing and ticketing interoperability.
- Franchising is expected to reduce highway accidents as the greater long-term bus demand relative to the EP implies fewer people shifting to driving.

¹⁹ Agglomeration benefits relate to the geographic concentration of economic activity through bringing businesses and workers closer together.

- Under franchising, planned interventions and improvements are expected to enhance bus users' sense of security and reduce the likelihood of crime, helped by better formal and informal surveillance. This is enabled through interventions like the easier deployment of coordinated safety teams across the network which would be dependent on complex cooperation between different operators under the EP.
- Franchising is expected to improve access to education, healthcare, retail, and leisure opportunities across the region. The planned measures (such as affordable fares, simplified ticketing, etc.) that would be introduced under franchising are all designed to make travel to and from such services easier and more accessible.
- Under franchising, changes to fares and ticketing are expected to make bus travel more affordable compared with an EP. Lower fares will particularly benefit residents in deprived and lower-income areas, where car ownership is low and public transport costs take up a larger share of income because these groups make up a significant share of bus users.
- Franchising will not at present significantly alter existing public transport infrastructure or routes when compared to the EP, so there will be no major changes to severance issues associated with communities that are presently disconnected from public transport infrastructure or routes to access jobs, services, or social opportunities.
- Franchising is not presently expected to bring about substantial changes to the availability of transport services in comparison to the EP. Therefore, it is expected to have a neutral impact on option and non-use (benefits related to the availability of public transport services that individuals may not directly use themselves) benefits when compared to the EP.
- The economic case does not specifically model the impact of increased bus ridership on passenger crowding in vehicles but the MSA considers that any such impact would be negligible²⁰.
- Further details on specific impacts to bus operators, including small and medium sized operators, can be found in the commercial case²¹.

Impacts on public accounts

- The potential introduction of franchising would change the way public funds are used compared with the EP.
- Under franchising, the public sector would take on full financial responsibility for planning, funding, and collecting revenue from the bus network, leading to higher overall costs even after accounting for additional income and a small financial saving from road infrastructure maintenance. Under the EP, only supported routes draw

²⁰ This sentence has been added following auditor feedback to confirm how crowding has been considered in the economic case.

²¹ This sentence has been added following auditor feedback to more clearly align with the statutory guidance.

directly on Nexus, Durham County Council, and Northumberland County Council accounts.

- Both models involve ongoing administrative and operational costs for local bodies, though these are higher under franchising due to a larger network with higher PVR. Investment spending is included in the financial assessment, but because national funding is assumed to be the same in both cases, it does not create any difference between the two options.
- The reduced increase in vehicle kilometres under franchising (owing to the relatively higher levels of bus demand) is expected to reduce the tax income from fuel duty and VAT in comparison to the EP.

Economic Impacts and Value for Money Statement²²

Analysis of Monetised Costs and Benefits (AMCB) Table

	£k 2023 PV ²³
Noise	£639
Local air quality	£476
Greenhouse gases	£6,736
Journey quality	£146,702
Physical activity	- Assessed <i>qualitatively</i>
Accidents	£9,041
Economic efficiency: consumer users (Commuting)	£398,432
Economic efficiency: consumer users (Other)	£900,602
Economic efficiency: business users and providers	£83,919
Wider public finances (indirect taxation revenues)	£2,816
Present value of benefits (PVB)	£1,549,364
Broad transport budget	£832,245
Present value of costs (PVC)	£832,245
Net Present Value (NPV)	£717,118
Benefit Cost Ratio (BCR)	1.86

Net Present Value (NPV) is the amount by which the total assessed value of benefits (PVB) exceeds the total assessed value of costs (PVC). The Benefit-Cost Ratio (BCR) compares the total expected benefits of the scheme to its total expected costs.

The values in the table above represent the incremental monetised benefit of franchising relative to the EP and demonstrate that franchising offers greater value for money than the EP. The value of investment under franchising is expected to be exceeded by the resulting benefits as demonstrated by the BCR of 1.86 ('Medium' VfM, as per HM Treasury Green Book categories). The assessment also identified a social BCR of 2.83 ('High' VfM) due to

²² The figures in this section have been recalculated following the modelling error identified in audit and therefore differ from those in the FSA.

²³ All monetary values presented in this table are in 2023 prices for the 30-year appraisal period.

the low capital investment required under franchising. While the transition to franchising is expected to generate some short-term uncertainty, the EP may face greater long-term uncertainty as operating agreements and partnerships would need to be renegotiated in response to changing circumstances.

As set out in the impacts section, under franchising, the MSA would also be able to deliver a broader scope and scale of non-monetised benefits (e.g. security, higher levels of physical activity). It enables the MSA to shape distributional outcomes through its direct role in specifying the bus network which would permit resources and improvements to be targeted to those areas and communities with the greatest need.

Sensitivity Analysis

Sensitivity tests have been undertaken to test the robustness of the appraisal and to examine how the BCR and VfM category respond to changes in key appraisal parameters. These tests vary key appraisal parameters such as cost (e.g. operator margin) and demand (e.g. branding and marketing) drivers compared to the core scenario presented above.

The first sensitivity test assumes that depot capital costs are higher or lower than initially assumed ($\pm 10\%$). This does not materially change the BCR and does not impact the VfM of the proposed Bus Franchising Scheme.

The second sensitivity test assumes a higher operator margin (7.5% instead of 5%) resulting in higher PVB and PVC but broadly the same NPV. The BCR is lower than the core in this scenario but the VfM of the scheme remains 'medium'.

The third sensitivity test assumes an increase in the overall operating costs of the network (+0.5% per annum) resulting in higher PVC and lower PVB thereby reducing the NPV. The BCR is lower than the core but the VfM of the scheme remains 'medium'.

The fourth sensitivity test assumes a lower demand uplift for branding and marketing (2.5% for branding and 0.5% for marketing). Under this sensitivity test, the BCR is lower than the core with a 'low' VfM.

The fifth sensitivity test assumes that existing funding remains flat in real terms and the results of this analysis are presented in the financial case.

Economic case conclusion

The calculated BCR of 1.86 ('medium' VfM) highlights the fact that the monetised benefits of franchising exceed those of the EP delivery option. An alternative assessment in the form of a 'social' BCR results in a 'high' VfM value of 2.83²⁴.

Franchising is also expected to deliver a range of non-monetised benefits such as improved security and levels of physical activity. The robustness of the analysis performed in this case has been tested through the use of various sensitivities outlined in the preceding section. The results of the sensitivity analysis demonstrate that the franchising option's BCR and value for money are not significantly affected by changes in the key demand or cost assumptions. Therefore, the value for money analysis performed in this economic case

²⁴ The benefit-to-cost ratios in this section have been recalculated following the modelling error identified in audit and therefore differ from those in the FSA.

demonstrates that franchising represents greater value for money than the EP delivery option.

Financial case summary – Introduction

Purpose of the financial case

The purpose of this financial case is to assess the financial implications for the MSA of the two shortlisted bus delivery options: the continuation of the current EP or making the proposed franchising scheme.

How bus services are funded today

Bus services in the North East are delivered within a deregulated market but are underpinned by substantial and ongoing public sector funding. While the majority of services are registered and operated commercially by bus operators, public funding plays a critical role in sustaining the network, supporting affordability for passengers, and maintaining coverage for communities that would otherwise lose access to bus services.

Funding for the bus network comes from a combination of fare revenue, central government funding, and local public sector support provided by the MSA, local authorities and Nexus. Together, these funding streams support both the commercial network and a range of policy interventions designed to protect access to bus services and deliver wider social and economic objectives. The MSA, as the local transport authority for the region, places levies for transport expenditure on its constituent local 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

Fare revenue remains the single largest source of funding for bus services, but it is not sufficient to sustain the network independently. The financial viability of the bus network is closely linked to continued public sector intervention which funds bus services through several key mechanisms. These include:

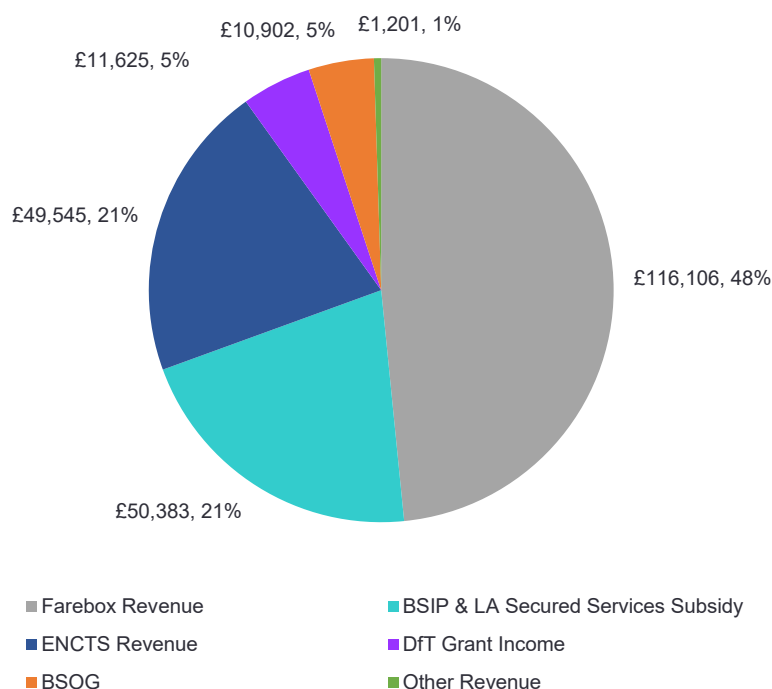
- English National Concessionary Travel Scheme (ENCTS) reimbursement
- Bus Service Improvement Plan revenue support for fares initiatives such as the region's capped fares scheme
- Bus Service Operators Grant and Bus Service Operators Grant+ to support fuel costs
- Direct funding for socially necessary services
- Department for Transport grant income (Zero Emission Bus Regional Areas and reimbursement for participation in Department for Transport capped fare scheme).

In addition, public funding supports infrastructure such as bus stations, stops and shelters, passenger information systems, and wider network management and safety initiatives.

In 2024/25, overall public sector financial support for bus services in the North East is estimated at £122.5²⁵ million, equivalent to around 51% of total operator revenue in that year. This figure highlights the scale of public funding already required to sustain the existing network under the EP, even before considering any future improvements or expansion.

²⁵ This varies from the £123 million presented in the FSA to correct a rounding error.

Total revenue of franchised bus network for FY24/25 - in £'000²⁶



Funding and financing options

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.

- Funding is the source of income that pays, in this case, for bus services.
- Financing (borrowing or saving) is used to fill the gap between the funding available and spending requirements for ongoing costs or capital expenditure and requires repayment.

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, the MSA 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)

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.

²⁶ The auditor identified an error in this chart where the unit was incorrectly labelled as “£million”. This has since been corrected.

Sources of funding

The financial case identifies a range of funding sources available to the MSA to support bus services under franchising. These include funding streams already relied upon today, as well as other mechanisms that could, in principle, be used to support improved services.

- **Transport levy** – paid by local authorities and are a long-standing source of funding for bus services, particularly for supported services and intervention where commercial services are withdrawn. However, these levies have reduced in real terms over time, limiting the ability of Nexus, Durham County Council and Northumberland County Council to sustain services or respond to network decline.
- **Central government bus funding (existing grants)** – the MSA and bus operators currently receive several specific central government funding streams. These funding streams are assumed to continue at their current real-terms level and form a core part of the funding baseline under both the EP and franchising options.
- **Farebox revenue** – Under franchising, the MSA would receive farebox revenue from services within the scope of the proposed franchising scheme. This represents a significant change from the current system, transferring revenue risk to the public sector but also providing a direct, transparent funding source that can be reinvested across the network in line with policy priorities.
- **City Region Sustainable Transport Settlement (CRSTS / TCR)** – CRSTS funding is primarily capital funding provided by central government. It is assumed that the MSA will convert 10% of this funding into revenue support for the bus network, providing an additional ongoing funding stream alongside other revenue sources.
- **Reserves** – The MSA, Nexus, Northumberland County Council and Durham County Council hold reserves that could, in principle, be used to manage short-term financial pressures or shocks. While reserves may provide temporary support, the Financial Case recognises that they are finite and cannot be relied upon as a long-term funding solution.

Since April 2026, the MSA has been receiving an Integrated Settlement from central government as an established Mayoral Strategic Authority. This consolidates multiple government funding streams (such as CRSTS, Transforming City Regions (TCR), and central government bus funding into themed funding allocations and provides significant flexibility to move funding within and, to a limited extent, between themes²⁷, as well as between capital and revenue.

²⁷ These “themes” represent funding priorities which align with the MSA’s functional responsibilities such as transport and local infrastructure, housing and strategic planning, and economic development.

Financing

The financial case considers not just the cost of bus franchising, but whether those costs can be affordably financed within the MSA's wider financial constraints, particularly in relation to borrowing and long-term revenue impacts.

All financing must sit within the MSA's overall borrowing limits and be affordable in revenue terms. The current MSA debt cap is £238 million, agreed with HM Treasury and subject to renegotiation if additional capital borrowing is required. Borrowing is best applied to upfront capital assets with long-term value and an income or savings stream to support repayment. Under franchising, this primarily relates to DB depot acquisition; transitional costs are funded from other revenue or reserves.

All MSA borrowing is undertaken within the prudential borrowing regime, which requires borrowing to be affordable, prudent and sustainable. The MSA qualifies under this framework; DB borrowing will depend on its final legal form. Sources of prudential borrowing may include:

- **Public Works Loan Board²⁸ (PWLB)** – PWLB provides low-cost borrowing to the MSA under HM Treasury terms. While competitively priced, PWLB offers limited flexibility, with a maximum two-year grace period that may constrain early franchising years.
- **National Wealth Fund (NWF)** – The NWF offers an alternative source of capital financing with potentially lower rates, greater flexibility, longer grace periods and no arrangement fees. It is well aligned with depot investment and green transport infrastructure.
- **Private sector borrowing** – Borrowing from private lenders is permitted under the prudential framework and may offer greater flexibility, but typically at higher cost than PWLB and NWF, reducing value for money unless flexibility delivers clear benefits.

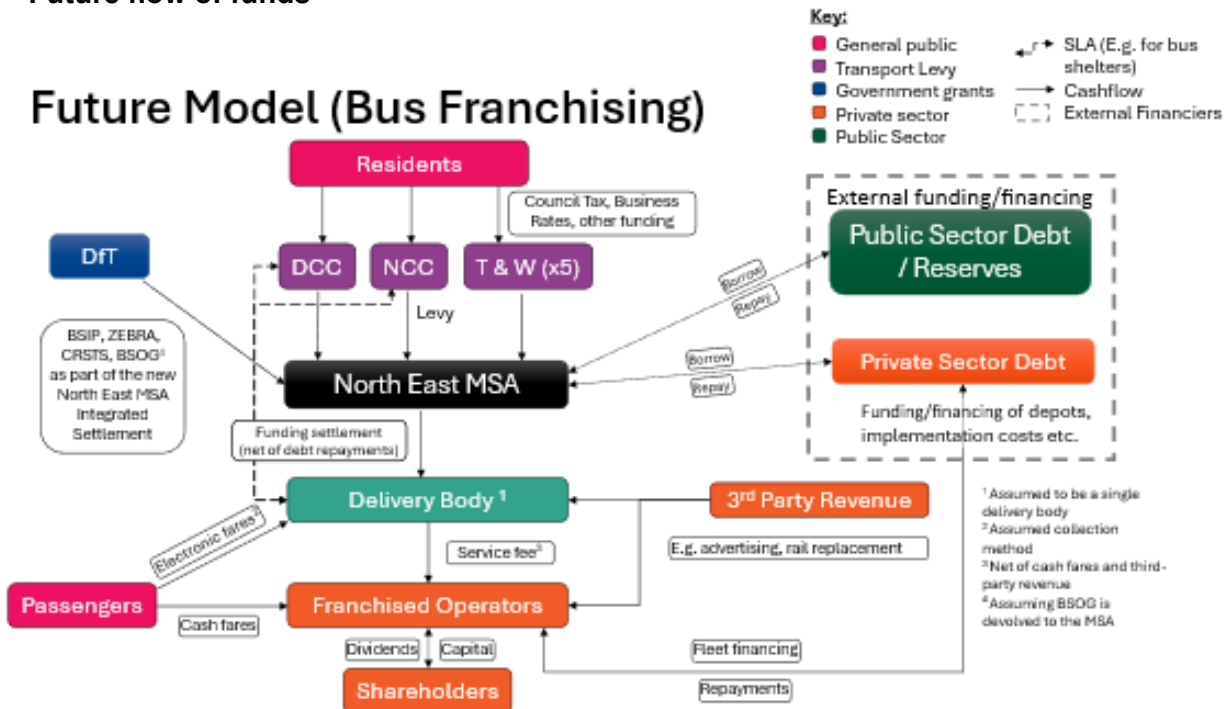
Under franchising, financial contributions will flow from central government, local authorities, passengers, and third-party sources through a designated delivery body to bus operators and associated stakeholders. Key funding streams include anticipated government grants and fare revenue. The model also incorporates private sector inputs such as operator costs.

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.

Implementing a bus franchising scheme will simplify the funding flows in the North East and make them more transparent, facilitating better understanding and oversight of the bus network.

²⁸ Note that the PWLB was incorrectly referred to as the "Public Works Loan Body" in the FSA. This has since been corrected.

Future flow of funds



Modelling principles and approach

The Financial Case modelling approach is designed to provide a fair, transparent and like-for-like comparison between the current Enhanced Partnership and franchising. Funding assumptions are applied consistently across both options, with differences in outcomes driven by changes in fares, mileage, investment and levels of control rather than unequal treatment in the model.

A baseline reference case is established for the current EP which assumes operators targeting a 10% profit margin and reflects anticipated operator responses such as fare increases and mileage reductions. Franchising is then tested against this reference case using adjusted assumptions on fares, service levels and targeted investment to support patronage growth. Demand, revenue and operating costs are modelled iteratively, drawing on patronage and mileage assumptions, exogenous drivers such as population and car ownership, and the expected benefits of franchising, with outputs including patronage, mileage and investment requirements.

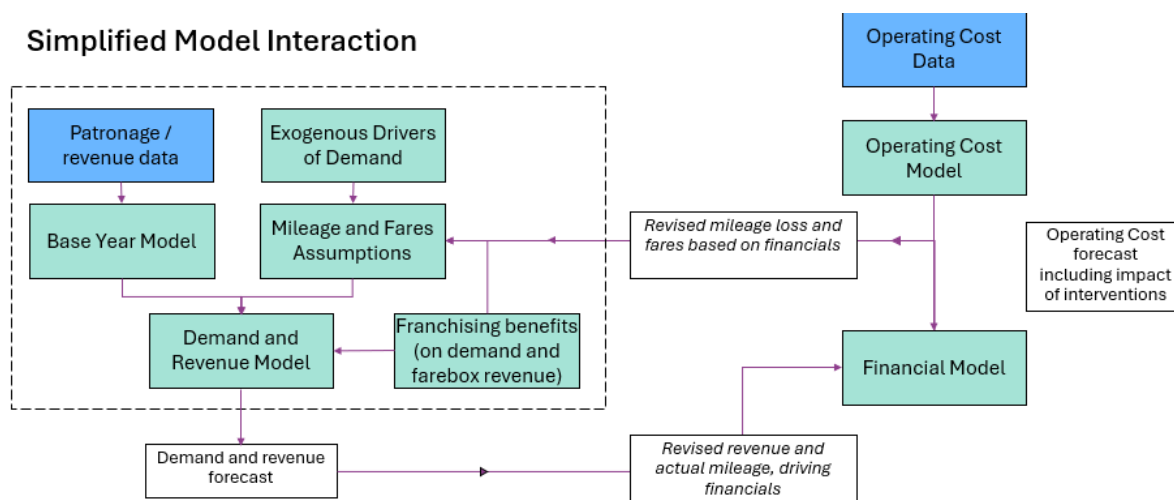
The Financial Case focuses on year-by-year revenue and capital impacts for the DB, establishing a clear baseline of current network costs and income and assessing affordability without assuming an ongoing increase in overall funding, recognising that while franchising can defer fare rises and service cuts, this cannot be sustained indefinitely.

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, such as depot purchases.
- The cost of transitioning to the delivery options.
- Appraisal period and timing.

Financial model interaction



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.

Financial assessment of the current EP

The following table 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.

EP summary²⁹

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

The primary conclusion is that for the current EP to continue, public sector funding would need to increase from £122.5 million³⁰ 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.

Risk under EP

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 bus market in the North East. In this system, the operators take both revenue and operational risks in normal circumstances.

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 Durham County Council/Northumberland County Council/Nexus to provide a replacement secured service.

Financial assessment of, and investment needed for, franchising

Income

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.

Expenditure³¹

Total costs are anticipated to reach £12,038.6 million (nominal), with an average annual expenditure of £344.0 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

²⁹ All figures are in nominal prices unless states otherwise.

³⁰ This varies from the £123 million presented in the FSA to correct a rounding error.

³¹ Please note the first two figures in this paragraph have been updated compared to those presented in the FSA due to corrections made to the modelling during the audit process.

(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.

Implementation

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 which are essential for facilitating a smooth transition and ensuring operational readiness of franchised services commencing in September 2029.

Assumed transition costs for franchising (today's prices, FY25/26)³²

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	2.64	2.64	1.82	1.82	11.37	-
Passenger Information	-	0.81	0.81	0.81	0.13	0.13	0.13	0.13	2.94	-
Depot Provision	-	-	-	6.57	7.68	13.67	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	13.99	15.33	21.49	2.81	2.81	85.65	

During this implementation period there will also be a growing staffing requirement i.e. staff not already included in the operator base cost and not part of current organisations that are in-scope for franchising.

Additional staffing requirement (today's prices, FY25/26)³³

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	703	1,344	2,321	2,224	2,319

Depots

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.

³² Please note that the costs associated with brand / marketing in this table have increased slightly following the identification and correction of a modelling error which applied an incorrect inflation uplift. Furthermore, the auditor also requested a note to be added here highlighting that some of the costs contained within this table, such as Real Living Wage, continue over the lifetime of the franchise.

³³ Please note the figures in this table have been updated compared to those presented in the FSA due to corrections made to the modelling during the audit process.

Financing summary

Investment	Borrowing requirement/ drawn over years	Term (years)	All in rate	Total interest
Depots	£30.5 million ³⁴ / 3 years (nominal)	40	5.5%	£43.9 million

Risk

21 risks have been identified as having potential significant impact on the successful implementation of the proposed franchising scheme and warranting quantification to facilitate a comprehensive assessment of the proposed 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 financial and operational viability of the proposed franchising scheme.

Risks with potential significant impact

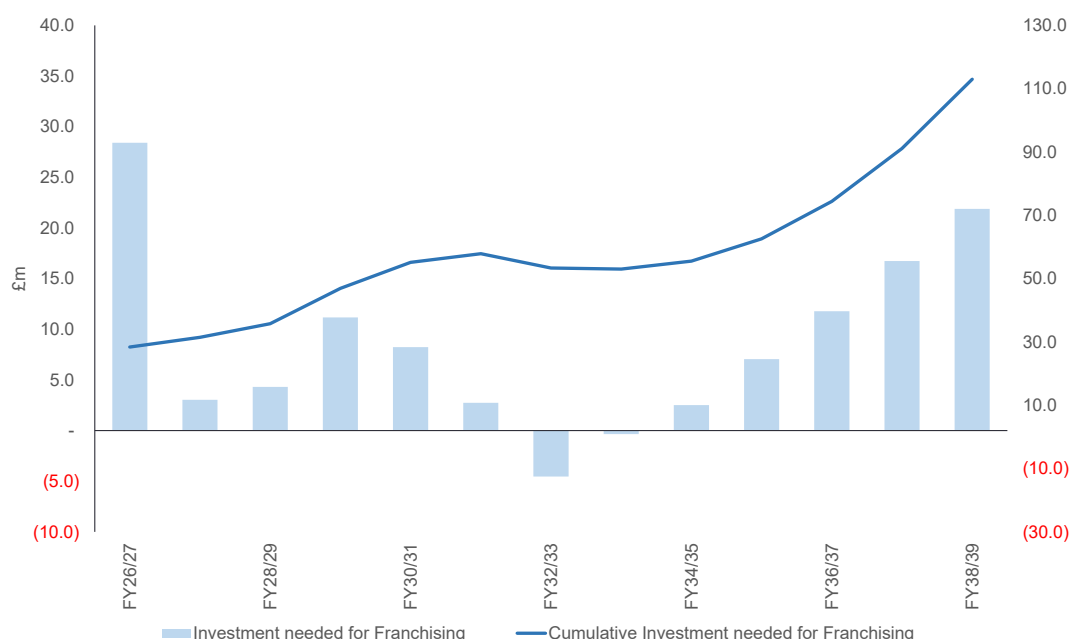
No.	Risk
1	Overestimation of operational savings and efficiencies achievable under the franchising model.
2	Government funding for the bus network and improvements is reduced or withdrawn during transition and implementation.
3	The DB is unable to acquire or construct the necessary depot facilities on-time 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.
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	Small-and-medium sized operators 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.

³⁴ This figure differs from that found in the FSA in response to feedback from the auditor, reflecting a minor change to the timing of depot costs. There is no change to the total interest due.

No.	Risk
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	Small-and-medium sized operator 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.

A total contingency of £26.6 million has been incorporated in the financial model to reflect the potential impact of these risks.

Investment needed for franchising (to FY38/39)³⁵



The above graph shows the investment needed for franchising, which is total revenue to the DB minus total costs to the DB, until FY2038/39. In years 1-10 of franchising the DB has a modest need for investment, an average of c. £7.7 million p.a. There is also £35.8 million of

³⁵ Please note the figures in this table, and the subsequent paragraph, have been updated compared to those presented in the FSA due to corrections made to the modelling during the audit process.

investment needed before the first franchised services go-live as a result of implementation costs. 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. This shows that 10 years of franchising (plus the three year transition period before franchising) would cost the delivery body an additional £113.0 million, whilst also assuming that existing funding continues and grows in line with inflation.

Sensitivity analysis

Sensitivity analysis has been conducted to test the robustness of the affordability analysis of the financial modelling, and to quantify the potential financial implications to the DB of any of the identified risks occurring.

Sensitivity scenarios³⁶

Sensitivity	Title	Description	Impact on 10-year franchising investment
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.	Increases the cumulative investment by £1.7 million. Total investment: £114.8million.
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.	Decreases the cumulative investment by £1.7 million. Total investment: £111.5million.
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%.	Increases the cumulative investment by £71.7 million. Total investment: £184.8million.
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).	Increases the cumulative investment by £130.8 million. Total investment: £244.0million.
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.	Increases the cumulative investment by £47.6 million. Total investment: £160.7million.

³⁶ Please note the figures in this table have been updated compared to those presented in the FSA due to corrections made to the modelling during the audit process.

Sensitivity 5	Existing funding	Existing funding does not grow in line with inflation and hence decreases in real terms ³⁷ .	Increases the cumulative investment by £160.6 million. Total investment: £273.8million.
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.	Increases the cumulative investment by £70.0million. Total investment: £174.2million.
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.	Decreases the cumulative investment by £156.9 million. Total surplus: £43.7million.

In summary, 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.

Franchising and call for investment conclusion³⁸

Financial modelling shows a cumulative investment needed for franchising over assumed existing public sector spend of £113.0 million (nominal, £82.8million in 23/24 prices) from FY26/27 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. Over the full 30-year appraisal period, this rises to £437.8m³⁹.

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	FY48/49	FY58/59	Total
Investment needed for Franchising	28.4	3.0	4.3	11.2	8.2	2.7	(4.5)	(0.3)	2.5	7.1	11.8	16.7	21.9	18.1	9.6	437.8
Cumulative Investment needed for Franchising	28.4	31.5	35.8	46.9	55.2	57.9	53.4	53.0	55.5	62.6	74.4	91.1	113.0	299.4	437.8	

There is a large initial funding ask of £35.8 million for transition (included in the cumulative investment), which is largely a provision for risk contingency and then modest amounts until FY36/37.

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

³⁷ To note that if this assumption were to change, an equivalent investment need would also be created under the EP case.

³⁸ Please note the figures in this section have been updated compared to those presented in the FSA due to corrections made to the modelling during the audit process.

³⁹ Please note that this figure has been added in response to feedback from the auditor requesting further clarity around the long term cost of franchising.

franchising of £244.4 million (Sensitivity 5 – existing funding does not grow in line with inflation). 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.

The cumulative investment needed for franchising of £113.0 million (nominal) will necessitate 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 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. The Integrated Settlement is the largest funding source available to the MSA, in its own right exceeding the cumulative investment need for franchising. As such, the Integrated Settlement will provide the majority of funding required with the option to utilise other sources also available to the MSA. The Integrated Settlement has been assumed to continue across the first 10 years of the franchise period, with a similar mechanism assumed to be available for the remaining 20 years to cover the investment needed⁴⁰. Ultimately, while uncertainties remain over future financial conditions and budgetary needs and allocations, the MSA is well-positioned to navigate these challenges with quantum of funding sources available to it.

During these initial ten years of franchise operations, the MSA will undertake a detailed review of franchising interventions to ensure the scheme evolves with passengers' needs. Various factors will be considered as part of this review, including the success of interventions in maintaining and growing bus use, insight from the DB and other transport authorities' experiences in fare-setting and network planning, and wider economic and market conditions. Informed by this review, elected members will take policy decisions on future interventions.

As described in the strategic case, the interventions to limit fare increases to RPI and maintain the size of the network apply across this initial ten-year period. These are significant passenger-focused interventions that require considerable public sector investment.

An investment need of £113.0 million in those initial ten years gives decision makers visibility of the initial medium-term investment needed. Policy decisions after these ten years are likely to change and evolve following the initial ten-year review⁴¹.

⁴⁰ Please note that this sentence has been added in response to feedback from the auditor requesting further clarity around how the funding gap will be met.

⁴¹ Please note the above paragraphs have been included to respond to feedback received from the auditor to further clarify how the policy decision will affect future funding requirements.

Commercial case summary – Introduction

Purpose of the commercial case

The commercial case sets out the commercial model and contract structure for franchised services and considers the market appetite to deliver franchised services under the proposed commercial and contractual terms.

Commercial objectives

Six commercial objectives have been adopted for the assessment which define what the MSA wishes to achieve through its commercial model. To ensure that the commercial arrangements deliver strategic priorities, each commercial objective links directly to one or more of the bus reform objectives adopted in the strategic case.

Commercial objective	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 Local Transport Plan, Bus Service Improvement Plan 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.

These objectives collectively informed the development of the commercial model for franchising – alongside domestic and international experiences of franchising – and formed

the framework against which the commercial deliverability of the existing EP and proposed franchising scheme are assessed.

Commercial arrangements under the EP

Asset strategy

Operators provide and maintain the key assets required to run local bus services – vehicles, depots and most on-bus technology such as ticket machines and audio-visual announcement systems. Public sector influence is limited to proportionate specification in secured service contracts and the use of grant funding to support a transition to zero emission vehicles and depot upgrades.

Responsibility for bus stations, stops and shelters is spread across various public and private sector bodies.

Passenger experience

Fares and ticketing

Operators determine their own products and prices as required by competition law. The Mayor's Fares – including capped adult single tickets, multi-modal/multi-operator day tickets and discounted youth fares – supplement operator-owned products. Complex commercial negotiations are required to deliver public sector interventions such as The Mayor's Fares, including agreement of a reimbursement mechanism, which have limited transparency for the MSA and do not facilitate competition.

Branding

Branding across the network differs by operator; vehicles carry the liveries of their respective operator with operator branding also applied to digital passenger information websites and applications. These sit alongside different public sector brands applied to bus stops and paper timetables.

A "Travel North East" logo has been developed through the EP which will supplement – but not replace – existing operator brands.

Marketing

Marketing responsibility sits largely with operators, who promote services in line with their own marketing strategies. Additional MSA-backed marketing supports regional initiatives such as The Mayor's Fares, but there is not a unified approach to marketing the network.

Timetabling

Operators design commercial timetables – including frequencies and routes – and make changes to these when necessary to reach a profitable position.

Passenger information

Operators maintain their own websites and mobile applications alongside public sector channels. Planned activity under the EP includes developing a regional website and app

utilising the Travel North East brand – but these would supplement and not replace existing operator platforms.

Paper timetable information is provided at most stops by Nexus, Durham and Northumberland in their respective areas⁴².

Network

Commercial mileage accounts for 87% of the network. Operators determine the size and shape of their respective commercial networks, including altering or withdrawing services where these are no longer commercially viable.

Operators must comply with statutory notice periods prior to changing or withdrawing a service. The EP additionally includes a Code of Conduct that should be followed – including engagement with bus users and affected communities. Operators, however, remain the ultimate decision-makers. Ongoing annual reductions in mileage of 3% per annum are expected to be required to sustain target profit margins.

Durham County Council, Nexus and Northumberland County Council are responsible for procuring socially necessary services that are not provided by the commercial network (known as secured services). Secured services represent 13% of the network by mileage.

These organisations face social and reputational consequences if services are seen to be cancelled without replacement. Financial constraints mean that it is not possible to provide all services withdrawn by operators as secured services – and where this is possible, doing so can require alterations to other secured services.

Opportunities for small-and-medium sized operator involvement

Small-and-medium-sized operators have an important role in the bus market, particularly in providing secured services and transport links in rural communities. Small-and-medium sized operators operate around 54% of wholly secured services in the region, with contract design decisions meaning that these typically require a smaller fleet size and carry lesser financial risk than commercial operators. Secured service contracts are expected to remain a healthy source of work for small-and-medium sized operators.

Some small-and-medium sized operators also operate a limited number of services commercially. Small-and-medium sized operator presence in the commercial market is, however, significantly more limited than the secured market. Barriers to small-and-medium sized operators providing significant commercial networks include depot access, the requirement to source a large fleet and the dominance of larger operators. In the context of a declining network with well-established links between major population centres, opportunities to significantly grow small-and-medium sized operator involvement in the commercial network are limited.

⁴² Northumberland County Council contracts printing paper timetable information to Nexus.

Commercial arrangements under franchising

Asset strategy

Vehicle provision and specification

Operators are assumed to provide the vehicles required to fulfil local service contracts, with the MSA operating a Residual Value Mechanism (RVM). An RVM would allow an outgoing operator to add its fleet to a 'pool' which could pass to a successor operator for book value – lowering the barrier to entry and reducing the risk of operators being left with stranded assets.

Recognising that mixed feedback was received during the market testing exercise and acknowledging wider uncertainty over the size of the used vehicle market and decarbonisation programme, the MSA intends to undertake further analysis to determine whether an alternative approach to fleet provision is necessary.

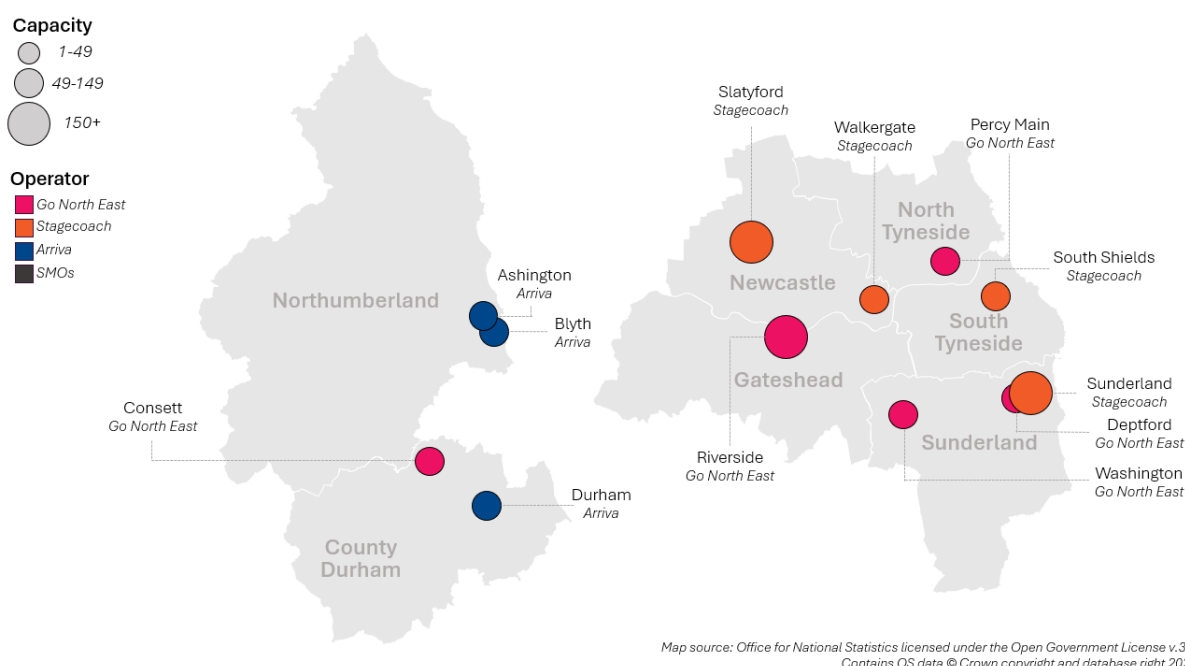
Vehicles themselves will need to comply with a specification set by the DB. Specification is assumed to align to existing industry standards, informed by the existing fleet operating commercial services and the requirements set by Durham County Council/Northumberland County Council/Nexus in secured service contracts. No incremental change is assumed in vehicles between the EP and franchising options.

Depot provision

Depot access can be a major barrier to entry as depots require substantial capital investment, the identification and acquisition of suitable land, and construction of facilities. The MSA therefore intends to acquire and provide depots to the operators of large franchise contracts.

The MSA has identified 12 existing depots which hold strategic importance to the region's bus network and sought valuations of these for the purpose of financial modelling. The FSA assumes that the MSA acquires or provides these strategic depot sites shown below.

Figure 3: Map of strategic depots⁴³



A different approach is assumed to depot provision for small contracts. Such contracts are likely to require significantly smaller depot sites, and operator-provision of these sites is not considered to carry the same barriers to entry. Smaller depot sites require a significantly smaller amount of land with a number of small depot sites already present across the region.

Bus stations, stops and shelters

Bus stations, stops, or shelters are mostly owned and managed by public sector bodies like local authorities and Nexus. Franchising is not assumed to alter ownership or management arrangements for most of these assets as transferring ownership to the DB would require negotiation with existing owners and have few tangible passenger benefits.

ITS

A hybrid approach is proposed for ITS. Systems that are essential to providing an integrated experience for passengers and consistent data would be owned by the DB and provided to successful operators.

Other non-passenger facing systems would remain operator responsibilities. These would be subject to limited specification by the DB to fulfil minimum outputs or integrate with other systems. It is anticipated that this specification would reflect the existing capabilities of ITS technologies in the region.

⁴³ Capacity refers to the number of vehicles permitted at that operating centre under the current operator's PSV license.

System	Specification	Ownership
Electronic Ticket Machines (ETMs)	Detailed – DB specifies which system should be installed on board	DB
Automatic Vehicle Location (AVL)	Detailed – DB specifies which system should be installed on board	DB
Audio-Visual Announcements	Integration with other systems	Operator
Driver communications	Integration with other systems	Operator
Wi-Fi	High-level – output-based specification	Operator
Driver monitoring software	High-level – output-based specification	Operator
CCTV	High-level – output-based specification	Operator

Passenger experience

Fares and ticketing

Fares and ticketing will become the responsibility of the public sector, with the DB recommending products and prices for approval by the MSA Cabinet. The MSA will use this increased control over fares and ticketing to achieve the aspirations set out in the strategic case, including significant fare simplification.

As described in the strategic and economic cases, the MSA intends to provide the requisite investment to avoid above inflation fare rises for at least the first ten years of franchising.

Branding

Franchise services will sit as part of the Angel Network – with a unified brand applied to buses, infrastructure and passenger information.

Local service contracts will require that buses display a specified Angel Network livery, which is likely to include a location where operator logos may also be displayed. Such branding will also be applied to physical infrastructure such as bus stop flags and paper information such as timetables located at bus stops.

DB control of branding creates a consistent and cohesive identity across the network, associating buses with the wider integrated transport network and positioning the Angel Network as a trusted brand.

Marketing

Marketing responsibility will transfer to the DB. This allows for coordinated campaigns promoting bus network use across the region as well as more targeted localised activities, a single set of digital channels and consistent messaging across the network.

Timetabling

Franchising allows for better coordination between different local bus services and other modes of transport by transferring additional responsibility for timetabling to the public sector.

Following mixed market testing feedback from operators on their preferred approach, two arrangements remain under consideration:

- Operators produce proposed timetables as part of their tender response, within 'red line' parameters set by the DB. This utilises existing operator expertise in timetable design but requires increased operator resource to bid and depends on accurate validation mechanisms during tender evaluation.
- The DB produces timetables (aligned to 'red line' requirements) and provides these as part of the procurement documentation. Potential opportunities for operator input could be included in the process.

The MSA will consider the merits of both approaches further, but the impact on the assessment of choosing one or the other is assumed to have a minor impact, with limited financial implications. Both approaches allow for greater integration and alignment with strategic priorities than the status quo.

Passenger information

Provision of most passenger information will become the responsibility of the DB, which will develop a single website and app offering real-time information, journey planning tools and retailing tickets. A unified customer contact centre and coordinated disruption messaging will also simplify and improve the passenger experience.

Existing public sector responsibilities for providing paper and digital information at bus stops are expected to continue, although information will now carry the Angel Network branding. No incremental difference in the level of paper and digital information provided at stops is assumed between the EP and franchising options.

Network

Scope of franchised services

Franchising will cover the MSA's whole geography and will include the clear majority of registered local bus services currently operating in the North East. Most services across the commercial and secured networks are therefore in-scope for franchising.

There are, however, some categories of service where inclusion in the franchising scheme is not feasible or desirable. Technical officers from Nexus, Durham County Council and Northumberland County Council have considered each category of service to recommend whether it is in-scope, provided outside of franchising through a service permit (which the DB will attach conditions to), or exempt from the franchising scheme.

School services

Schools services are in-scope for franchising where these are registered local bus services that are open to the general public as well as school pupils. This covers services which run commercially but serve schools as part of their route, as well as commercial or subsidised services that only operate at school travel times.

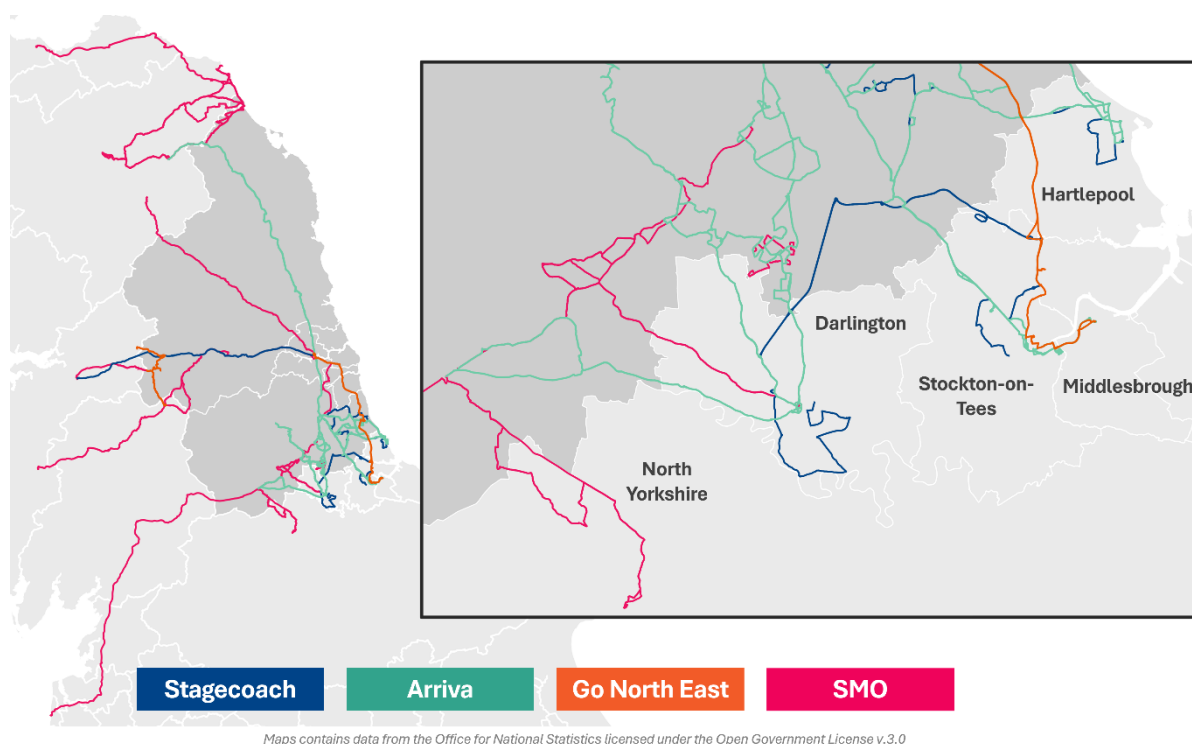
Services registered as schools services which take payment from scholars who are not entitled to free school travel will be exempt from the franchising scheme.

Provision not registered as local, schools or works services sit outside the potential scope of franchising. This includes services contracted to schools or local authorities for school transport where these are not open to the public.

Cross-boundary services

35 services cross between the MSA and a neighbouring transport authority, providing important transport links in their communities. Developing an approach to cross-boundary services was a significant component of the technical analysis noted above.

Figure 4: Map of North East cross-boundary services



Cross-boundary services with a majority of their journey time inside the North East will generally be provided as franchised services (legally operating as a secured service outside the MSA area), unless:

- the service is procured by a neighbouring local transport authority; or
- including the service in the franchising scheme risks an adverse impact on the commercial network in the neighbouring local transport authority area.

Services with less than half their journey time inside the North East, or which meet the criteria above, will generally instead be subject to the service permit regime.

Cross-boundary services operated as part of the franchising scheme will include a number of services in southern County Durham but which are based at a depot outside the scheme area in Darlington. These services are proposed to be included as an important part of the network in County Durham, but further engagement with the Tees Valley Combined Authority (TVCA) and the relevant operator is required to prevent against any adverse impacts.

Service permit regime

The MSA intends to operate a service permit regime to allow non-franchised services to operate in the North East where appropriate. Operators will be responsible for applying to the DB for a service permit.

To be granted a service permit, a service would need to pass one of the statutory tests under the Act:

- under the test in section 123Q(5) of the Act, the MSA must grant a service permit if satisfied that the proposed service will:
 - benefit people making journeys on local services which have one or more stopping areas in the franchised area; and
 - not have an adverse effect on any local service provided under a franchise contract in the franchised area
- under the test in section 123Q(5A) of the Act, the MSA may grant a service permit to cross boundary services if satisfied that benefits to passengers making journeys on the proposed service, or benefits of the proposed service to the economy of the relevant area or people living in that area, outweigh any adverse effect on a franchised service;
- under the test in section 123Q(5B) of the Act, the MSA may grant a service permit to any other services if satisfied that benefits of the proposed service to the economy of the relevant area or people living in that area outweigh any adverse effect on a franchised service.

The DB will attach conditions to permits to ensure permitted services interact with the franchised network in a way which supports passenger needs and avoids negative impacts. Permit conditions are anticipated to vary by service type and may, depending on the type of service, include requirements such as retailing MSA fare products within the scheme area or sharing real-time location data.

Where registered as local bus services, the following service types are intended to be subject to the service permit regime:

- Services funded and procured by a third-party which are open to the public with commercial fare scales. This does not include services procured by Nexus, Durham County Council or Northumberland County Council.
- Long distance coach services to prevent against potential abstraction from the franchised network.
- Demand-responsive transport provision.
- Sightseeing and tour buses.
- Buses provided by supermarkets without charging fares.
- Taxibus services.
- Special event services.

As required by the Act, the Franchising Schemes (Service Permits) (England) Regulations 2018 and in accordance with the Guidance, the MSA will undertake a separate consultation

on the proposed service permit regime prior to its implementation. The MSA must also consult on any conditions it may attach to service permits.

Exempt services

The MSA intends for all services that operate entirely within the MSA's area to operate under a local service contract, with the exceptions of:

- Services providing transport for pupils to and/or from schools within the MSA's area which do not provide transport to the general public⁴⁴
- Services providing transport to pupils with special educational needs and disabilities that live within the MSA's area to and/or from schools or other placements within or outside the MSA's area where these do not serve the general public.
- Metro, Ferry and rail replacement bus services⁴⁵.
- Services required due to temporary road closures.

Franchising can only apply to registered bus services. Other types of provision not operating as registered bus services (such as private hire) are automatically outside the scope of franchising.

Network planning and design

In order to enable a smooth transition to franchising for passengers, communities and bus industry employees, there will be minimal network change upon the initial introduction of franchising.

Network reviews will take place on a planned basis once franchising has been introduced across the region to inform future network evolution (within the commitment maintain the size of the network for ten years). These reviews will be led by the MSA and DB and will include significant input from local authority officers and elected members, as well as consultation with passengers and the public.

Contract structure

Contract length

Contracts are intended to have a maximum length of seven-to-eight years. This consists of a guaranteed term of five-to-six years with the potential for extension at the MSA's sole discretion.

This approach balances providing long-term certainty to bus industry employees as well as facilitating investment in assets by operators, while allowing the MSA to refresh contracts periodically and ensure value for money.

Performance regime

Contracts will include a performance regime that links operator payment to performance against punctuality and reliability expectations. It is anticipated that the performance regime

⁴⁴ Referred to in the commercial case of the FSA as "type 3" (registered schools services that also take payment from 'unentitled' scholars that are not eligible for BSOG)".

⁴⁵ Replacement rail and tram services are automatically exempt from the proposed franchising scheme in accordance with section 123J(8) of the Act.

will allow operators to earn incentives for exceeding expectations while allowing for deductions should performance fall short.

Revenue risk

Franchising under the proposed model will transfer key drivers of patronage (and thereby revenue) to the public sector, including network planning, fares and ticketing, branding, and marketing. It is appropriate for the MSA, as the body ultimately holding these levers, to accept revenue risk.

Fare revenue will be received by the DB. Operators will receive contract payments in exchange for operating services, with these payments being set through the competitive tendering process.

Cost risk and inflation indexation

Operators will retain responsibility for managing operational costs – drawing on their operational expertise and recognising that bids will be driven by various operational cost elements. Labour costs, fuel costs and vehicle costs are the most significant costs expected to be managed by operators.

Inflation sits outside the control of operators; inflation risk will therefore be held by the DB with indexation applied to the operator cost base (using recognised indices).

Safety

Operators will retain responsibility for the operational safety of staff, passengers and assets, utilising their existing expertise in day-to-day safety delivery and management. It is anticipated that there will be a level of DB assurance as some assets will be owned by the DB or visibly associated it via branding.

Aligned to the MSA's aspirations to improve passenger safety, the DB will assume strategic oversight for addressing anti-social behaviour and violence against women and girls.

People and HR requirements

The DB will issue a limited staffing specification covering key requirements while retaining primary operator responsibility for designing and delivering appropriate staffing models to fulfil their operational requirements. This specification is expected to specify how operators are expected to liaise with the DB.

Specification will also include conditions to uplift employment practices, aligned to the MSA's aspirations to be the home of real opportunity and to deliver a new deal for North East workers. Conditions are anticipated to include achieving Shine accreditation⁴⁶ and paying the real living wage.

⁴⁶ 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.

Packaging strategy

Large contracts

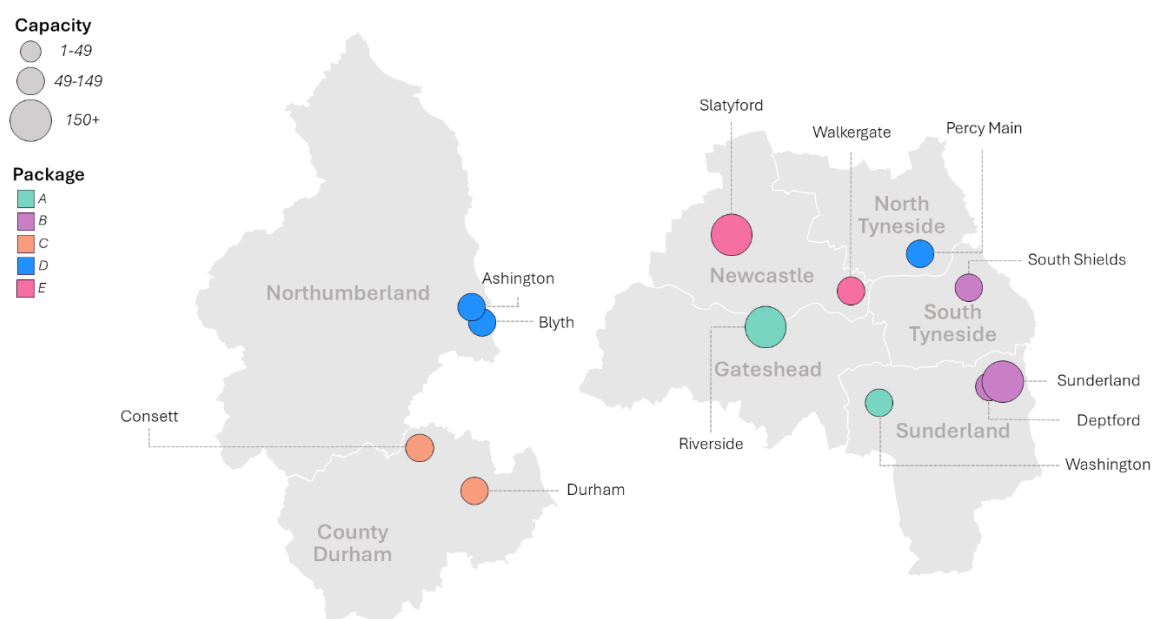
Most services will be provided through one of five large contracts. Each of these contracts are centred around two or more of the region’s strategic depots, providing continuity of working location for industry employees based at these depots.

Large contracts are sized to be operationally coherent and commercially attractive, with approximate Peak Vehicle Requirements (PVR) ranging between 110 and 190. Grouping services in this way is designed to ensure sufficient scale to attract bids from a range of operators, including potential new entrants, with barriers to entry limited through the MSA/DB leasing the relevant strategic depots to the contracted operator.

Further refinement of the packaging strategy will be required ahead of procurement to reflect any changes to the network since the commencement of the FSA. Detail shown below therefore remains provisional and indicative.

Package	Strategic depots	Indicative PVR
A	Riverside, Washington	150
B	Deptford, Sunderland, South Shields	190
C	Durham, Consett	110
D	Percy Main, Ashington, Blyth	160
E	Slatyford, Walkergate	170

Figure 5: Strategic depots by provisional contract package



Maps showing the individual services allocated to each package can be found as Appendix 6.

Small contracts

Approximately 20% of the network (by PVR) will be provided through small contracts; these are primarily services which are currently operated from non-strategic depots and/or provided as secured services in the status quo.

Small contracts are anticipated to each cover an individual route with a low PVR. Operators are anticipated to be able to bid for these contracts individually or combine them into a group bid where bidders consider this would allow for operational efficiency. Further testing will be undertaken ahead of procurement activity commencing to determine whether it is advantageous for the DB to group some individual small contracts together.

Small contracts have been geographically aligned to the five large contract packages to allow for a coordinated transition to franchising across areas – as shown below.

Large contract	Small contracts
A: Washington and Riverside depots	7 contracts with PVRs between 1 and 3
B: Deptford, Sunderland and South Shields depots	12 contracts with PVRs between 1 and 3
C: Durham and Consett depots	35 contracts with PVRs between 1 and 11
D: Percy Main, Ashington and Blyth depots	17 contracts with PVRs between 1 and 5
E: Slatyford and Walkergate depots	14 contracts with PVR between 1 and 13

Franchised school services will be provided under separate contracts and are not included in the figures above, unless such school services are currently interworked with other non-schools services (as separating these would reduce operational efficiency).

Transition strategy

Tranches

Franchising will initially be introduced in three tranches which are expected to launch in September 2029, September 2030, and September 2031. A phased approach balances the need for timely change with the practicalities of running major procurement exercises while mitigating risk of disruption for passengers, staff and operators.

Several factors have been considered to reach a provisional order of these three tranches – including customer impact, profitability of existing commercial services, and ease of implementation. A provisional indication of the tranches is shown below; further development is expected to refine this ahead of procurement activity commencing.

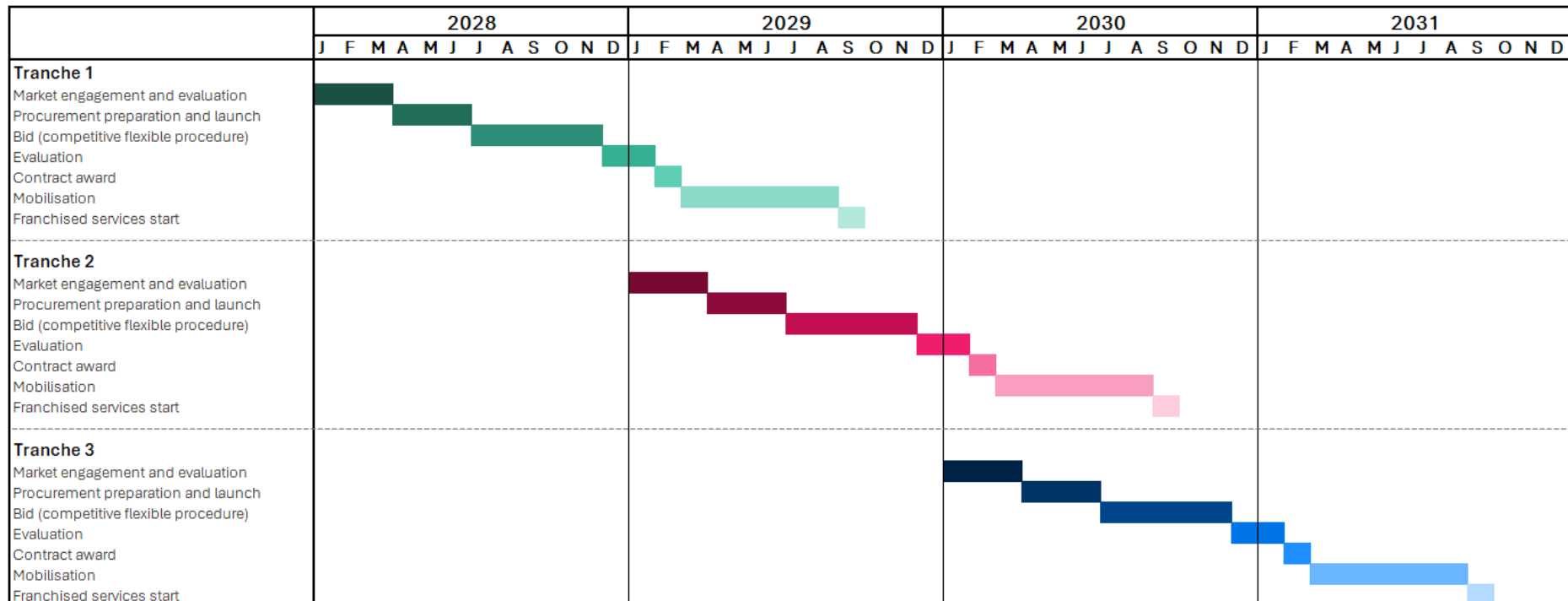
Month	Large packages	Small packages
September 2029	A: Washington and Riverside depots	7 services with PVRs between 1 and 3
September 2030	B: Deptford, Sunderland and South Shields depots	12 services with PVRs between 1 and 4
	C: Belmont and Consett depots	35 services with PVRs between 1 and 11
September 2031	D: Percy Main, Ashington and Blyth depots	17 services with PVRs between 1 and 5
	E: Slatyford and Walkergate depots	14 services with PVR between 1 and 13

Procurement

The DB will undertake the procurement processes necessary to award contracts across each tranche. Further analysis to determine the procurement procedure and individual activities involved will be undertaken ahead of procurement activity commencing, but it is likely that the competitive flexible procedure will be the most appropriate for large contract packages.

Procurement processes are anticipated to require approximately 20 months, including the post-contract award mobilisation period which will be a minimum of six months, prior to franchised operations beginning. Figure 4 below outlines an indicative procurement timeline across the three tranches.

Figure 6: Indicative procurement timeline



Phasing

Local service contract procurement cycles will be a substantial undertaking that require significant resource in the DB to deliver. It is considered to be preferable to reach a steady state with approximately one procurement exercise each year to avoid an inefficient use of DB resources and allowing a regular cycle of activity.

The DB therefore anticipates altering initial contract lengths for the initial programme of local service contract procurements to reach a position of one procurement cycle each year by 2033. Large contracts are assumed to be awarded for five years in tranche 1, six years in tranche 2, and seven years in tranche 3. Small contracts are assumed to be awarded for four, five and six years respectively.

	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



Opportunities for small-and-medium sized operator involvement

small-and-medium sized operators will have various opportunities for continued participation in the North East bus market under franchising. These opportunities have been considered in the design of the proposed commercial model for franchising and the MSA considers that this will facilitate the involvement of SMOs in the provision of services in the MSA's area.

Potential opportunities for market participation by small-and-medium sized operators include:

- **Providing services under small contracts.** Around 20% of the network will be tendered as small contracts – a significant increase on the 13% currently procured as secured services. Small-and-medium sized operators will be able to tailor their bids, and group services if applicable, to reflect their capacity and appetite.
- **Participating in large contracts.** Small-and-medium sized operators will also be free to bid for large contracts, including potential opportunities to bid jointly with other operators as part of consortia or as subcontractors.
- **Schools services.** Small-and-medium sized operators commonly operate schools services; the MSA's proposed franchising model retains this avenue of work. Vehicle standards are likely to be different (such as reduced branding requirements) to allow these services to be used for non-franchised work outside of school service times.
- **Non-franchised services.** Opportunities will remain available to operate services that are either outside the scope of the franchising scheme (such as private hire) or subject to a service permit (such as special event services).

Market testing

The MSA has conducted a market testing exercise to test the commercial approach and understand the level of market interest in bidding for local service contracts. This exercise included engagement with incumbent large and small operators as well as potential new market entrants. Engagement included briefing sessions, optional one-to-one meetings between the MSA and operators, and operators completing and returning questionnaires.

Responses were generally positive, with most elements of the commercial model accepted. There is a healthy level of market appetite with both incumbent and potential new entrants expressing interest in bidding for local service contracts.

Operators provided constructive feedback through this process – including experience of franchising models worldwide. Feedback included requests from some operators to consider three aspects of the commercial model:

- **Vehicle provision:** Some operators expressed a preference for the public sector to provide fleet to operators and expressed that they would be reluctant to bid in an environment where operators are expected to provide fleet without an RVM in place.
- **Timetable development:** Operator preferences were mixed between those preferring operator-led or DB-led approaches, but most favoured some operator input.
- **Ticket machine ownership:** The MSA initially proposed that ETMs be owned by operators, but there was a strong market preference for the MSA/DB to own and provide ticket machines to operators to ensure consistency and integration.

The MSA will continue to consider the feedback received across these areas as proposals are refined ahead of implementation. Any subsequent change in approach in these areas is not expected to materially affect the overall cost or deliverability of franchising.

Assessment against commercial objectives

Commercial objective	EP	Franchising	Justification
The public sector should be able to influence the bus network and the outcomes it delivers for passengers			Franchising performs better because it gives the MSA control over key aspects including fares and ticketing, branding and the network itself which allows for interventions to be introduced more directly than under the EP, which depend on negotiation and agreement with operators.
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption for passengers			The EP performs better because it is already in place and requires no transition period. Franchising involves a carefully managed multi-year transition process which, although more complex than retaining the existing operating model, is practical.
Competition is stimulated			Franchising performs better because it introduces open, regular competition for contracts. Competition under the EP is limited to a small number of corridors – most areas are dominated by a single commercial operator and there is little prospect of significant new market entries.
Arrangements should achieve best value for the public purse while balancing risk			Both the EP and franchising options perform similarly. Under the EP, operators continue to carry direct commercial risk, but the public sector is indirectly exposed when service withdrawals trigger the need for subsidy, and it is difficult to demonstrate value for money in negotiated reimbursement arrangements. Under franchising, competitive tendering and clearer risk allocation support stronger value-for-money mechanisms, but the public sector would take on revenue and reputational risk due to assuming increased control.
Maintain opportunities for small-and-medium sized operators to			Both options provide opportunities for small-and-medium sized operators. Franchising contracts will include an increased number of small, individually biddable contracts aligned to small-and-medium sized operator

Commercial objective	EP	Franchising	Justification
access the North East bus market			capacity, as well as other options for market participation. small-and-medium sized operator participation in the EP is healthy, but largely limited to secured services and is constrained by structural barriers in the commercial market.
Region-wide implementation			Both options can be applied consistently across the North East, including urban, rural and coastal communities. Secured services maintain coverage within the EP model where commercial provision is not viable, while franchising offers strong long-term tools to shape the network and ensure it reflects the needs of the whole region.

Commercial case conclusion

Continuing with the current EP and making the proposed franchising scheme are both commercially viable options for the future delivery of bus services in the North East. Franchising, however, performs better against the commercial objectives and gives the MSA significantly greater ability to deliver the wider strategic objectives for bus reform.

The intended commercial model for franchising will strengthen public control over the key levers that shape the passenger experience – fares and ticketing, branding, network design and passenger information. Improvements in these areas will be able to be introduced more consistently and without requiring complex commercial negotiations with operators. Franchising will bring competition for the market through regular competitive tendering processes with low barriers to entry and opportunities for small-and-medium sized operator participation.

Market testing provides confidence that operators – both incumbent and potential new market entrants – are willing to bid for contracts under the proposed commercial model.

Continuing with the current EP would avoid a transition phase and maintain existing opportunities for small-and-medium sized operators. Competition would, however, remain limited and the EP does not provide sufficient public influence to create a green, integrated transport network that works for all in line with the aim of the LTP.

Management case summary – Introduction

Purpose of the management case

The management case of the FSA outlines how the MSA would make and operate its proposed franchising scheme while also presenting an analysis of the current operations of the EP.

Management and responsibility split of the EP and franchising scheme

The North East's bus network is managed through a statutory EP between the MSA, local authorities, Nexus and bus operators. Operators make most of the day-to-day decisions within this model: they plan routes and timetables, set most fares, invest in vehicles and depots, and determine how services are delivered. The public sector supports these commercial operations by funding and managing infrastructure, delivering secured services, administering concessionary fares, providing passenger information, and leading major improvement programmes.

The North East Bus Partnership Board was established in 2023 as a strategic governance forum overseeing performance of the network against our Bus Service Improvement Plan Key Performance Indicators. It meets quarterly, receiving delivery updates and considering risks. Its membership brings together operators, Nexus, local and strategic authority officers and passenger groups such as Bus Users UK and Transport Focus, and an independent chair.

Under franchising, steady-state management would work very differently. The MSA would take responsibility for planning the entire network, setting fares, specifying service levels and standards, and contracting operators to run services under competitive tender. A Delivery Body (DB) would manage franchising operationally, overseeing contract management, performance monitoring, customer information, revenue systems, branding, service planning and day-to-day network management. Operators would deliver services under contract.

The two models differ fundamentally in their steady-state arrangements. The EP retains a deregulated market shaped by operator commercial priorities, supported by public-sector partnership activity. Franchising replaces this with a coordinated public management model, integrating decisions about routes, timetables, fares, information and customer experience across the whole region. While the EP builds on existing collaboration, franchising enables a single guiding mind to plan and manage the network as a unified system.

Competency and resource

Delivering the bus network under either the current EP or the proposed franchising scheme requires a wide range of technical, operational and managerial skills. Many of these competencies already exist within the public sector through the teams in the MSA, Nexus, DCC and NCC, which currently deliver secured services, manage infrastructure, oversee concessionary travel, provide passenger information, lead customer experience initiatives, and support the EP's monitoring and reporting arrangements. This capability forms the foundation of today's partnership model and provides an important starting point for any future expansion of public-sector responsibilities.

Franchising would require a significant increase in public-sector capacity, reflecting the shift from a commercially driven system to one directed and managed by the MSA. Some existing capabilities would transfer directly into the new DB and new specialist roles would be needed in areas such as contract management, real-time operations, revenue and performance management, customer relations, procurement, network planning, safety and security, asset management, depot strategy and integration of digital systems. Additional temporary expertise would also be required during transition to support complex activities such as staff transfers under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) regulations, depot acquisition, legal work, systems integration and mobilisation planning.

Resource planning shows that around 56 Full Time Equivalent already exist across the region's public-sector teams, with a further 58 Full Time Equivalent no longer required by the existing operators in areas where their responsibilities are expected to transfer to the DB, and franchising requiring an eventual steady-state organisation of around 160 Full Time Equivalent. This means approximately 47 additional Full Time Equivalent would need to be created over time, alongside temporary transition resource.

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

Transfer of Undertakings (Protection of Employment) (TUPE) regulations

Around 4,000 bus industry employees in the North East may transfer to new employers if franchising is introduced. Staff who are “principally connected” to affected local services – typically those spending at least half their time on those services – would transfer under TUPE, which protects their existing terms, conditions, pensions, continuous service, and collective agreements as under section 123X of the Act, TUPE will apply where an incumbent operator ceases to provide services at the time that a new operator starts to provide services under a franchise contract. TUPE arrangements would primarily be the responsibility of operators, who would continue to employ operational staff.

However, the MSA and Delivery Body aim to make this process as smooth as possible by agreeing criteria for “principally connected” staff with operators and unions, as required by the Act, the Franchising Schemes and Enhanced Partnership Schemes (Application of TUPE) (England) Regulations 2017 and the Guidance, and the depot strategy has been designed to maximise continuity for drivers, engineers, and support staff. While not all operator staff will be eligible to transfer, it's important to note that the DB will be recruiting the resource required to deliver the proposed franchising scheme.

Franchising is seen as an opportunity to raise employment standards, with local service contracts including requirements such as Shine accreditation and payment of the Real Living Wage. The MSA has already begun informal engagement with relevant trade unions.

Transitional change and mobilisation for both options

Transitioning from the current EP to franchising would be one of the largest operational changes undertaken in the region's recent transport history. A structured and carefully managed programme would be needed to transition the network from commercial operations to a franchise model.

This transition would involve setting up the DB, procuring new systems, preparing contracts, managing depot strategy, undertaking operator and market engagement, and ensuring that all legal, operational and financial elements are in place before services begin. The proposed programme includes multiple stages of procurement for local service contracts, phased to spread risk and allow learning between rounds. During this period, additional temporary capacity would be required to support activities such as legal work, TUPE, technical development, depot acquisition, and organisational change. The MSA would also implement measures to maintain stability during transition, including monitoring operator behaviour and preparing a continuity plan to mitigate risks of service reduction or disinvestment.

Mobilisation begins once contracts are awarded, and will be for a period of no less than six months. It ensures that operators taking on new franchises can be ready to deliver from day one. This includes preparing vehicles and depots, integrating systems, finalising staffing arrangements, carrying out route and operational familiarisation, and completing readiness checks. 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. Communications, branding activity, staff preparation and customer-facing information would also form part of mobilisation. By the end of transition and mobilisation, the franchising scheme would be fully implemented across the region, enabling a stable and coordinated new operating environment.

Performance and benefits management

EP

Performance and benefits management under the EP follows a five-step process:

- The benefits the EP aims to deliver are identified through the Bus Service Improvement Plan, with updates over time giving a clearer understanding of what can realistically be achieved.
- Partners agree KPIs and targets, adjusting them as circumstances change (for example, revising patronage baselines after the pandemic).
- The MSA's Transport Customer Experience team monitors performance on behalf of the EP, a function that continues under the EP option.
- This team produces detailed six-monthly reports that analyse performance against KPIs.

- Finally, if issues persist, the MSA and operators agree actions to address underperformance, with the ability to vary the EP if needed. In serious cases, the MSA can report non-compliance to the Traffic Commissioner, who has powers to take enforcement action.

Franchising

Under franchising, the MSA would use a structured and proactive approach to track whether the new model is delivering the improvements expected for passengers. The benefits franchising aims to achieve are directly aligned with the objectives in the LTP and the wider bus reform objectives, ensuring that the way performance is monitored links clearly to the region's long-term goals.

Performance and benefits management would follow a five-step process. First, the MSA identifies the benefits franchising is intended to deliver, using the reform objectives and the Local Transport Plan to shape a clear set of desired outcomes. Second, each outcome measure is converted to a Key Performance Indicator, with baseline data established before the first round of franchising to measure progress over time. Third, responsibilities are defined: operational delivery and contract management sit with the DB, while the MSA retains strategic oversight as the scheme's sponsor and funder. Fourth, the DB would run an ongoing assessment regime, considering what data is required, how often benefits should be tested, how performance should be scored, and when KPIs may need to be reviewed or updated to keep them relevant.

Where performance falls short, contracted operators would be held to a formal performance regime, with incentive payments for exceeding targets and deductions if punctuality or reliability fall below required levels. Standard contractual remedies – such as rectification plans – give the DB the ability to intervene quickly. Beyond contracts, the DB can also inform investment decisions, such as recommending targeted bus priority measures where congestion is harming reliability. Together, these mechanisms ensure that under franchising, the public sector has both the oversight and the levers needed to drive continuous improvements across the network.

Network change

EP

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.

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, though there have been instances where operators have undertaken of limited engagement with communities prior to network changes, despite the presence of an agreed Code of Conduct. 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.

Franchising

Responsibility for shaping the regional bus network would move from operators to the public sector. The MSA, supported by the DB, would lead decisions about routes, frequencies and service design, taking operator input into account but ensuring that network decisions are driven by public need rather than commercial priorities. This allows the network to be planned as a coherent whole across the region.

Although changes will be needed over time to reflect shifts in demand, new developments or changing road conditions, the MSA assumes that the initial transition to franchising would involve minimal network change to provide continuity for passengers and communities. Once franchising is in place across the region, permanent changes would be managed through planned network reviews at set points each year. This creates a predictable cycle, giving operators, local authorities and communities clarity about when changes will be considered.

Network reviews would be led by the DB, working closely with the MSA and engaging local authorities, customers, communities and elected members. The DB would determine the detailed process and objectives for each review. Early reviews may focus on issues such as duplication between commercial routes inherited from the deregulated market.

Major changes proposed by the DB would require approval from the MSA's Cabinet to ensure democratic oversight. As part of establishing the DB, governance processes will set out the extent to which the DB can make minor changes independently – mirroring the flexibility currently held by local authorities for their secured service – while ensuring that significant decisions remain accountable to local leaders and the public.

Stakeholder engagement and consultation

EP

The EP includes several established governance and engagement structures that enable different groups, organisations and communities to participate in shaping bus services. These include the North East Bus Partnership Board, the Bus Advisory Board and Local Bus Boards, each providing regular opportunities for discussion, feedback and joint decision-making.

Alongside these structures, the North East Bus Service Code of Conduct – developed collaboratively by operators, local authorities, the MSA and Nexus – aims to ensure that changes to routes and timetables are made in an orderly way and that communities are properly engaged. Although it provides a useful framework for consultation, the code is non-binding, and there have been cases where operators have not followed it. Beyond these partnership mechanisms, the MSA also carries out wider public engagement when appropriate, such as the Big Bus Conversation in 2023 and the extensive consultation for the Mayor's Local Transport Plan in 2024. These opportunities for stakeholder and community engagement are expected to continue under the EP without significant change.

Franchising

Under franchising, engagement and consultation become an ongoing and formalised part of how the network is managed. Before the scheme is implemented, the MSA must consult on its proposed service permit scheme, which is part of the commercial model for managing cross-boundary services and other non-franchised services in accordance with the Act, the Franchising Schemes (Service Permits) (England) Regulations 2018 and the Guidance. The MSA must also consult on the conditions the DB plans to attach to service permits, to seek views on these from operators and other parties that the MSA considers appropriate. After considering consultation responses, the MSA would update the service permit scheme if required, publish a report setting out the MSA's response to the consultation, and issue a final service permit policy statement setting out how the service permit scheme will operate which satisfies the requirements of the Franchising Schemes (Service Permits) (England) Regulations 2018.

Franchising is a long-term change to the bus system, and continuous engagement is essential to ensure it adapts to the needs of passengers, operators and local communities. Feedback would be gathered through a range of channels, including customer queries and complaints handled by the DB, contract management discussions with operators, and ongoing political and officer-level engagement with constituent local authorities. These routes ensure the MSA and DB have access to detailed, practical insight on how services are performing on the ground.

Local authorities would also have a formal and influential role within the franchising governance structure through their representation at Cabinet. This ensures they can shape major decisions such as fares, network reviews and investment priorities. Alongside this, the DB will maintain structured, day-to-day liaison with local authorities through dedicated stakeholder officers, embedding local knowledge into both strategic and operational processes. Statutory duties also apply: franchising authorities must consult on how well the franchising scheme is working, at least with Transport Focus, regularly throughout the life of the scheme, with formal engagement taking place at least every 36 months. Consultation with Transport Focus will provide an independent assessment of how well the scheme is working, supplemented by the DB's wider evidence base, including performance benchmarking and user feedback. This creates a multi-layered, continuous process of engagement that supports a responsive, passenger-focused franchised network.

Risk and risk management

Risk management principles

Under franchising, the DB will need to put in place its own comprehensive risk management policy, reflecting the scale of responsibilities it will take on and the operational risks it will be required to manage. This policy is expected to draw heavily on the established risk frameworks already used across the region's transport organisations, ensuring consistency of approach and a strong foundation for managing risk from the outset. The MSA will also have some responsibility for managing certain risks under franchising, building on its existing risk management policy and reporting arrangements, which will be reviewed as part of transition.

Across the region, DCC, NCC and Nexus already operate mature, modern risk management frameworks, each informed by recognised national and international standards. While tailored to their respective organisational environments, these policies share common priorities such as clear accountability, transparency, resilience and structured escalation routes, features that will provide a strong basis for the DB's approach.

The MSA already operates a defined risk reporting cycle for risks within its remit. The DB will develop its own reporting schedule as part of its governance arrangements once it is established. Together, these frameworks will support a consistent, robust and transparent approach to identifying, assessing and managing risks under franchising, ensuring that both the MSA and DB can respond effectively to challenges and maintain confidence in the delivery and operation of the franchised bus network.

Key risks under EP

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.

Additionally, operators also currently carry much of the reputation risk associated with poor network performance.

Key risks under franchising

Franchising would give the public sector far greater control over how bus services are planned and delivered across the region. With this increased control comes a corresponding increase in the scale and complexity of the risks that the MSA and the DB would need to manage. The most significant of these are revenue risk and reputational risk.

Revenue risk transfers from operators to the public sector under franchising. This means that changes in demand, economic conditions, travel behaviour or competition from other modes would directly affect the finances of the franchised network. While this approach enables the MSA to manage the network strategically and reinvest revenue for public benefit, it also exposes the public sector to fluctuations in demand and travel behaviour.

Reputational risk also increases. Today, passengers largely associate their service experience – both positive and negative – with the operator providing it. Under franchising, the MSA and DB become the visible guiding mind behind the network, and the public will expect consistent, reliable and high-quality service. Any poor performance, regardless of whether the cause lies with an operator, infrastructure, road conditions or wider events, would reflect more directly on the public sector. At the same time, improvements achieved under franchising would enhance the MSA's and DB's reputation.

It is important to note that some reputational risk already exists under the deregulated system. Public understanding of current responsibilities is often limited, and many people assume the public sector has more control over local bus services than it actually does. As a

result, the MSA can already face scrutiny for issues it cannot influence. Franchising changes this dynamic by giving the public sector the tools to influence outcomes – while also making it more accountable for them.

Programme management and governance

Existing governance

The franchising assessment has been developed and overseen through established governance arrangements within the MSA and its partner organisations. Delivery of the project has been led by a dedicated bus reform project team, bringing together officers with expertise in policy, analysis and project management, and supported by the MSA's Head of Bus Reform. Specialist support has been provided throughout by external advisors, contributing legal, commercial, financial and operational expertise across each of the five cases and the audit process, ensuring the assessment is based on robust evidence and best practice.

Oversight of the project has been provided through a structured sponsorship model. Senior sponsors were appointed for each of the five cases, as well as for the audit and consultation phases, drawing on experienced officers from the MSA, Nexus, Northumberland County Council and Durham County Council. Collectively, they have ensured that the project remains aligned to regional priorities and that expert insight informs key decisions. Overall project sponsorship sits with the MSA's Assistant Director for Transport Network Transformation, who is responsible for steering the project team and ensuring the assessment is delivered effectively.

Formal project governance has been provided through the Bus Reform Programme Board, which brings together senior transport leaders from across the MSA and partner organisations. Bus Reform Programme Board has met regularly since late 2024 to review progress, resolve issues, monitor risks and ensure alignment with wider transport and organisational objectives. This formal structure has been complemented by extensive engagement outside Bus Reform Programme Board meetings, including workshops to shape the commercial model, refine strategic objectives and support the drafting of the assessment. Governance arrangements will be reviewed after the Mayor makes a decision on whether to proceed with franchising and make the proposed franchising scheme to ensure they remain fit for purpose for the next phase of delivery.

The assessment has also operated within the MSA's wider governance framework. The MSA is led by the Mayor and Cabinet, with local authority leaders and the Mayor forming the Cabinet's voting membership, supported by non-voting representatives from business and the voluntary and community sectors. Scrutiny and assurance are provided through the Overview and Scrutiny Committee and the Audit and Standards Committee, which review decisions, monitor risk and ensure strong governance across the organisation. Cabinet is supported by advisory boards, including the Transport Advisory Board, which brings together transport portfolio holders from the region's local authorities and has been regularly engaged throughout the project.

Operational governance is supported by the MSA's Senior Leadership Team comprising the Chief Executive and Directors, who are responsible for day-to-day management and hold delegated authority for certain decisions. Northumberland County Council and Durham County Council continue to deliver delegated transport functions – such as securing bus services – and Nexus continues to act as both the Passenger Transport Executive for Tyne and Wear and an officer body of the MSA, with its own internal governance but ultimately reporting to the Mayor and Cabinet.

Governance of the proposed scheme

Under the Act, the decision to make a franchising scheme rests solely with the Mayor, acting on behalf of the MSA. While Cabinet members' views may be taken into account, the formal responsibility lies with the Mayor alone. Any future proposal to vary the scheme must follow a statutory process⁴⁷, including consultation with operators, trade unions, passenger groups and other affected stakeholders as applicable depending on the nature of the proposed variation, before the Mayor can decide whether to make changes.

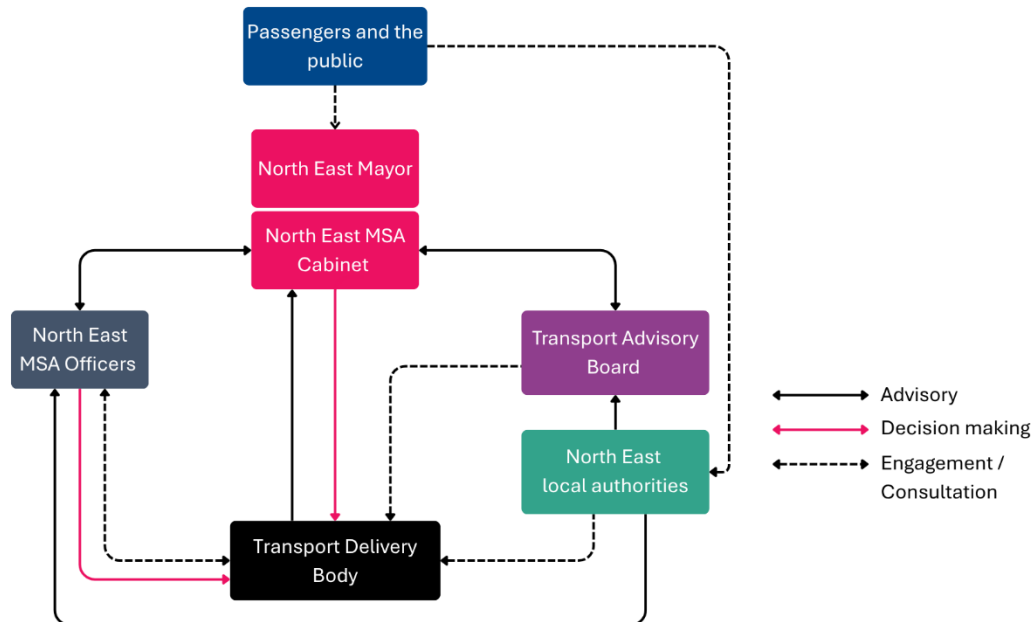
Once the proposed franchising scheme is made, overall responsibility remains with the MSA, with Cabinet setting the budget for the DB and determining key strategic decisions such as fare levels. The DB would manage the day-to-day operation of franchising and take on a wide range of functions, including procuring and managing local service contracts, specifying routes and frequencies, managing depots and fleet standards, overseeing performance, delivering passenger information, and leading branding, marketing and ticketing. The DB would also inherit responsibility for bus stations and interchanges currently managed by Nexus, while existing arrangements in Northumberland and County Durham would continue.

The DB would have delegated authority from the MSA to make minor tactical changes to the network quickly and respond to live operational issues without seeking Cabinet approval each time – ensuring the network remains resilient and responsive. However, major network changes recommended through planned network reviews would require Cabinet approval, maintaining democratic oversight of significant decisions affecting communities.

Local authorities would continue to play an important role under franchising. In addition to their voting representation at Cabinet, they would contribute to strategy and policy development, advise on local priorities and continue to own and manage key assets such as bus shelters, stops and interchanges. They would also retain responsibilities linked to highways, including planning and delivering bus priority improvements. Some functions – such as secured bus services and aspects of passenger information – would transfer to the DB, while statutory home-to-school transport eligibility and closed-door school transport would remain with local authorities.

⁴⁷ The statutory process to be followed will depend on the nature of the proposed variation (see sections 123M and 123MA, and Schedule 9A of the Act).

Indicative governance structure



The Traffic Commissioner would continue to have a role under franchising, though the nature of this role would change. Responsibilities that remain include enforcing against operators who attempt to run unapproved services, registering exempt and cross-boundary services, and overseeing operator safety and good repute. Functions that would fall away include registering franchised services and enforcing punctuality or reliability standards for those contracts, as these responsibilities would be absorbed by the DB through its contract management and performance regime.

Governance of the EP

The North East’s EP was formally made in March 2023 following negotiation with operators, a statutory operator objection process, and public consultation. When the former Joint Transport Committee was replaced by the MSA in 2024, the Joint Transport Committee’s role in respect of the EP Plan and EP Scheme transferred to the MSA, ensuring continuity of the statutory partnership. Recent engagement with operators confirmed that the current EP remains an appropriate reference case for the FSA, and no variations are proposed. Any future changes would follow the mechanisms set out in the EP Scheme.

The EP is a statutory partnership framework that can be varied when the MSA, affected local authorities, and affected operators agree. Variations can be initiated by the MSA, Nexus, local authorities, operators, or organisations represented on Local Bus Boards. Where not all operators agree to proposed changes, a formal statutory objection mechanism applies. This sets defined thresholds – for example, objections based on the proportion of operators or the share of registered mileage – ensuring that proposed changes command broad support across affected operators before being adopted.

Governance of the EP is delivered through a structured set of boards and forums designed to bring the public and private sectors together. The North East Bus Partnership Board meets quarterly and includes senior officials from the MSA, Nexus, Durham County Council, Northumberland County Council, operator leadership from Go North East, Arriva and Stagecoach, and passenger groups such as Bus Users UK and Transport Focus, chaired independently. It provides strategic oversight, monitors delivery against Bus Service Improvement Plan outcomes, and acts as the main forum for formal decision-making within the EP. Local Bus Boards operate in each local authority area to discuss EP matters affecting local communities, with each board determining its own membership and meeting arrangements. A Bus Advisory Board provides an additional region-wide forum for stakeholders with an interest in the bus network to discuss priorities, performance and the future direction of the EP.

Management case conclusion

This Management Case has shown how both the EP and the proposed franchising scheme could be delivered. The EP already has established arrangements in place and is capable of continuing in its current form. Franchising, by contrast, would introduce a new operating model for bus services in the North East, requiring significant organisational change, new capacity within a DB, and a transition programme to implement the proposed franchising scheme.

Under franchising, the DB would take on responsibilities currently held by commercial operators and would require expanded resources and new competencies to manage the network, oversee contracts and deliver customer-facing functions. A mayoral decision to proceed to make the proposed franchising scheme would trigger a multi-year transition and mobilisation period to recruit staff, procure contracts and put new systems in place.

Both models provide clear processes for performance management, stakeholder engagement and governance. Franchising would increase the public sector's exposure to financial and reputational risk but would also give the MSA stronger tools to plan, manage and improve the network. Local authorities would continue to play an important strategic and operational role under either model.

Overall, the management case concludes that both the existing EP and the proposed franchising scheme are deliverable, with franchising requiring additional investment, transition activity and governance arrangements to enable successful operation.

Overall conclusion of the FSA

This FSA has assessed the option of making a franchising scheme against continuing with the current EP.

The FSA sets out that introducing a bus franchising scheme would be a significant undertaking and would transfer extensive responsibilities to the MSA. This will include taking financial responsibility for the bus service, assuming responsibility for providing bus depots as well as keeping around 317,500 bus passengers a day informed and satisfied with their journeys. It also concludes that franchising represents an opportunity, the assessment concludes that franchising would be affordable, feasible and deliverable – offering benefits including significantly greater value for money, increased public influence, and greater fulfilment of the MSA's strategic objectives, such as the Mayor's Local Transport Plan's aim of creating a green and integrated transport network that works for all.

The assessment has undergone an independent audit, as none of the findings of the audit have had an impact on these conclusions this provides assurance to the case.

In line with the rationale articulated above and conclusions of the five cases, the FSA accordingly recommends that the North East Mayor makes the proposed franchising scheme.

Summary of the equality impact assessment

The MSA aims to create a transport network that works for all and has a duty under the Equality Act 2010 to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct is prohibited by or under the Act
- Advance equality of opportunity between persons who share a relevant protected characteristic⁴⁸ and persons who do not share it
- Foster good relations between those who have a relevant protected characteristic and those who do not

Reflecting the MSA's aim and obligations, an Equality Impact Assessment of the proposed franchising scheme has been prepared by the MSA – approved and published by the MSA Cabinet in March 2026 – and appended as Appendix 5.

The Equality Impact Assessment examines how those with protected characteristics use local bus services and attempts to identify specific concerns that individuals belonging to these groups may encounter when travelling on local buses. The evidence examined suggests that many relevant protected characteristics are associated with higher bus use and dependence on local bus services. The evidence also highlights how groups with protected characteristics such as the LGBTQIA+ community, women, ethnic minorities, and religious groups may face actual or perceived safety-related barriers when accessing local bus services.

⁴⁸ Relevant protected characteristics are: age; disability; gender reassignment; race/ethnicity; religion; sex; and sexual orientation. The MSA also recognises socio-economic background as relevant to this Assessment

The Equality Impact Assessment concludes that the improvements to the bus service that may result from the introduction of franchising could have a positive impact on the protected characteristics of age, disability, gender reassignment, race / ethnicity, sex, religion, and sexual orientation.

Insights from this Equality Impact Assessment have informed the design of this consultation, seeking to ensure that those with protected characteristics have an opportunity to respond to proposals outlined in the FSA. Their responses, alongside those received from other members of the public, will be considered and responded to by the MSA.

Appendices

- Appendix 1 – Public and statutory questionnaires
- Appendix 2 – Independent Assurance Report
- Appendix 3 – MSA responses to the observations
- Appendix 4 – Proposed Franchising Scheme
- Appendix 5 – Equality Impact Assessment
- Appendix 6 – Franchising package maps

Statutory questionnaire

Franchising Scheme

1. The proposed Bus Franchising Scheme would cover the entire area of the North East MSA, covering Tyne and Wear, Durham and Northumberland County Council areas. Do you have any comments on this?

The 'Geographic scope' section on page 32 of the Bus Franchising Consultation Document contains further detail on geographical coverage of the proposed scheme.

2. If the decision to introduce the proposed Bus Franchising Scheme is taken, it is anticipated that the first franchised services will be in place in Autumn 2029. Do you have any comments on this?

The 'Transition Strategy' section on page 75 of the Bus Franchising Consultation Document sets out the proposed timeline for implementation.

3. While the majority of services are included in the franchising scheme, some, such as some school services are not. Do you have any comments on this approach?

The 'Network' section on page 69 of the Bus Franchising Consultation Document sets out this approach in more detail.

Strategic Case

1. In the Assessment, we concluded that change is needed to deliver better buses in the North East. Thinking about the buses in the North East, what works well and what doesn't?

Please tell us what works well and what could be improved. You may wish to think about routes, connections between places, frequency, fares, access, how easy it is to get information about how to get around, and the overall customer experience.

The 'Case for change' section on page 29 of the Bus Franchising Consultation Document sets out the case for change identified in the Assessment.

2. The Strategic Case sets out a case for change which focuses on challenges such as a lack of consistency, integration, and accountability to communities, as well as issues regarding value for money and performance. Do you have any comments on the challenges identified in the Strategic Case?

The 'Case for change' section on page 29 of the Bus Franchising Consultation Document sets out the case for change identified in the Assessment.

3. A number of strategic objectives have been developed to help compare the shortlisted delivery options (continuing with the Enhanced Partnership, and introducing the

proposed Bus Franchising Scheme) in the Assessment. Do you have any comments on these strategic objectives for the North East's bus network?

The Bus reform objectives can be found in the 'Bus reform objectives' section on page 30 of the Bus Franchising Consultation Document.

4. The potential impact of the proposed Franchising Scheme on neighbouring authorities, and the bus services in these areas, have been identified in the Strategic Case. Do you have any comments on these potential impacts?

These potential impacts are discussed in two different sections of the Bus Franchising Consultation Document – 'Geographic scope' on page 32 and 'Network' on page 69.

5. The Strategic Case concludes that franchising is best placed to deliver our strategic objectives for buses in the region, when compared to continuing with the current EP. Do you have any comments on this conclusion?

A summary of the Strategic Case conclusion can be found in the 'Strategic case conclusion' section on page 40 of the Bus Franchising Consultation Document.

Economic Case

1. The Economic Case of the Assessment considers the impact of the proposed scheme on the economy, environment, operators, passengers, the MSA, and wider society compared to the current EP. Do you have any comments on these impacts?

The 'Impacts' section on page 44 of the Bus Franchising Consultation Document discusses the economic impact of the proposed scheme.

2. The Economic Case concludes that the proposed Bus Franchising Scheme offers better overall value for money than the current Enhanced Partnership. Do you have any comments on this conclusion?

A summary of the conclusion of the economic case can be found on page 48 of the Bus Franchising Consultation Document.

Financial Case

1. The Financial Case has identified the estimated costs of introducing and operating the proposed Bus Franchising Scheme. Do you have any comments on these costs?

The 'Financial assessment of, and investment needed for, franchising' section on page 56 of the Bus Franchising Consultation Document details these estimated costs.

2. A number of funding sources have been identified which could support bus services under franchising, including revenue from fares, the Integrated Settlement, and the transport levy, among others. Do you have any comments on the proposed sources of funding?

'Funding and financing options' on page 51 of the Bus Franchising Consultation Document details these funding sources.

3. The Financial Case details a number of risks which could have a significant impact on the successful implementation of the franchising scheme. Do you have any comments on the assessment of risk to the Mayoral Strategic Authority in relation to the proposed franchising scheme?

Risks are discussed in the 'Risk' section on page 58 of the Bus Franchising Consultation Document.

4. The Financial Case concludes that the proposed Bus Franchising Scheme is affordable, with the funding options identified providing a robust framework for addressing the investment need while allowing for flexibility in response to evolving financial conditions. Do you have any comments on this conclusion?

A summary of the conclusion of the Financial Case can be found in the 'Franchising and call for investment conclusion' on page 61 of the Bus Franchising Consultation Document.

Commercial Case

1. A number of commercial objectives have been developed by the MSA. Do you have any comments on these commercial objectives?

The commercial objectives can be found in the 'Commercial objectives' section on page 63 of the Bus Franchising Consultation Document.

2. The Commercial Case describes the MSA's proposed packaging and transition strategies, with three tranches made up of a mix of 'large' and 'small' contract packages. Do you have any comments on this approach?

The 'Packaging strategy' and 'Transition strategy' sections on pages 74 and 75 of the Bus Franchising Consultation Document provides more detail on these strategies.

3. The Commercial Case identifies a minimum mobilisation period of six months between a local service contract being awarded and services beginning to operate under this contract. Do you have any comments on the proposed minimum mobilisation period?

The 'Procurement' subsection of the 'Transition Strategy' section on page 76 of the Bus Franchising Consultation Document notes the minimum mobilisation period.

4. The MSA proposes that contracts will have a maximum length of seven-to-eight years, with a shorter guaranteed term (approximately five-to-six years). Do you have any comments on the proposed length of franchise contracts?

Discussion around the contract length can be found in the 'Contract length' subsection of the 'Contract Structure' section on page 72 of the Bus Franchising Consultation Document.

5. Operators are assumed to provide the vehicles under franchising which will be required to comply with an industry-standard specification set by the MSA. To facilitate this approach the MSA will operate a Residual Value Mechanism, lowering the barrier to

entry for non-incumbent operators and reducing the risk of operators being left with stranded assets at the end of a franchise contract. Do you have any comments on this approach?

Detail around the proposed approach to vehicle provision and specification can be found in the 'Vehicle provision and specification' subsection of the 'Asset strategy' section on page 66 of the Bus Franchising Consultation Document.

6. The Commercial Case assumes that 12 existing 'strategic' depot sites are acquired by the MSA for use by operators of 'large' contracts, with 'small' contract operators expected to provide their own depot sites. Do you have any comments on the approach to depots under the Proposed Franchising Scheme?

Detail around the proposed approach to depot provision can be found in the 'Depot provision' subsection of the 'Asset strategy' section on page 66 of the Bus Franchising Consultation Document.

7. The Commercial Case highlights various opportunities to facilitate the involvement of small and medium-sized operators (SMOs) in the North East bus market under franchising. Do you have any comments on how the scheme would support or affect small and medium-sized operators?

These opportunities can be found in the 'Opportunities for small-and-medium sized operator involvement' section on page 78 of the Bus Franchising Consultation Document.

8. Under the proposed Bus Franchising Scheme, revenue risk would be retained by the MSA, with cost risk transferred to operators. Do you have any comments on the proposed allocation of risk between the MSA and operators?

Discussion on risk allocation can be found in the 'Revenue risk' and 'Cost risk and inflation indexation' subsections of the 'Contract structure' section on page 73 of the Bus Franchising Consultation Document.

9. The Commercial Case concludes that – while both the proposed franchising scheme and the existing EP are commercially viable options – franchising performs better against the commercial objectives. Do you have any comments on this conclusion?

A summary of the conclusion of the commercial case can be found on page 82 of the Bus Franchising Consultation Document.

Management Case

1. The Management Case sets out how the proposed Bus Franchising Scheme would be managed and what competency and resource is required. Do you have any comments on the delivery arrangements set out to deliver and manage franchising, such as if adequate capability and capacity is identified?

Detail on these arrangements can be found in the 'Management and responsibility split of the EP and franchising scheme' and 'Competency and resource' sections on page 83 of the Bus Franchising Consultation Document.

2. The Management Case describes the arrangements proposed for the potential transfer of bus industry employees to new operators. Do you have any comments on these arrangements?

Detail on these arrangements can be found in the 'Transfer of Undertakings (Protection of Employment) (TUPE) regulation' section on page 84 of the Bus Franchising Consultation Document.

3. In the Management Case the MSA has identified a number of activities which would have to take place during the transition to franchised services. Do you have any comments on the activities identified, and the proposed timeline?

These activities can be found in the 'Transitional change and mobilisation for both options' section on page 85 of the Bus Franchising Consultation Document.

4. The Management Case has set out a five-step process to manage performance and ensure that the anticipated benefits of the proposed Bus Franchising Scheme are realised. Do you have any comments on how the MSA would monitor and evaluate the performance of the proposed Bus Franchising Scheme?

This process can be found in the 'Performance and benefits management' section on page 85 of the Bus Franchising Consultation Document.

5. A governance structure has been proposed which details where responsibility for different aspects of the franchised bus network would rest, and the ways in which local authorities would be able to influence the franchised network. Do you have any comments on the proposed governance arrangements?

Detail on the proposed governance arrangements can be found in the 'Programme management and governance' section on page 90 of the Bus Franchising Consultation Document.

6. The management case concludes that both the existing EP and the proposed franchising scheme are deliverable, with franchising requiring additional investment, transition activity and governance arrangements to enable successful operation. Do you have any comments on this conclusion?

A summary of the conclusion of the management case can be found on page 93 of the Bus Franchising Consultation Document.

Equality, Accessibility & Inclusion

1. Do you have any comments on the findings of the full Equality Impact Assessment?

A summary of the full Equality Impact Assessment can be found on page 94 of the Bus Franchising Consultation Document.

Final Questions

1. Do you support the introduction of the proposed Bus Franchising Scheme in the North East?

- Yes
- No
- Don't know

Please explain why.

2. Are there any changes you think would improve the proposed Franchising Scheme?

3. Do you have any further comments?

Please email your response to HaveYourSay@northeast-ca.gov.uk if you wish to submit your own response not following this template, please email these to the same address. If you are responding on behalf of an organisation, we request that you accompany your responses with a covering letter on headed paper confirming that it is an official response submitted on behalf of your organisation.

Public questions

Introduction to the consultation

When we developed the Mayor's Local Transport Plan in 2025, more than 16,000 people across the North East told us what matters to them most for transport, and strong support emerged for a greener, more integrated network that works for all. We have listened, and we are now considering changes to how bus services are planned and delivered.

How buses are currently managed.

- Buses are currently deregulated, meaning private bus companies set routes, timetables, fares and service standards.
- An 'Enhanced Partnership' is in place, where the North East Mayoral Strategic Authority (North East MSA), local authorities and bus companies work together to deliver improvements to bus services. However, bus companies still retain control over key decisions.

What is being proposed.

This consultation asks for your views on our proposals to introduce a Bus Franchising Scheme, which we have set out in the Franchising Scheme Assessment (FSA) – known as the Assessment. If the proposed Bus Franchising Scheme is introduced, the public would have more say over services, timetables, routes and fares, with bus companies contracted by the North East MSA to deliver franchised services.

What does this mean for you?

- Simpler tickets and better value for money.
- Routes and timetables would be planned more consistently, helping buses connect better across the network and reducing cuts.
- Consistent and increased safety measures.
- One place to find information.
- One recognisable brand to help passengers travel with confidence.
- Greater ability for local people to influence the bus network and have their say.
- More public control over how buses are planned and delivered, focusing on people, not profit.
- Financial responsibility which will need to be managed carefully but gives the public sector the ability to strengthen and improve the bus network as well as making better use of public money.

Alongside financial responsibility introducing bus franchising will mean that other important responsibilities must be managed by the MSA. This includes keeping around 317,500 bus passengers a day informed and satisfied with their journeys across more than 500 individual bus routes.

Further detail on the advantages and disadvantages associated with each option, and how these are being considered can be found here. (*Link to bigger consultation document and shorter summary*).

To have your say please follow the instructions within the survey below. Please note that the consultation will close at midnight on Sunday 27 September 2026. If you need any further support, please click here. (*Link to contact section on consultation page*)

Survey Questions

1. Thinking about the buses in your area and across the wider North East, what works well and what doesn't?

[open text]

Please tell us what works well and what could be improved.

You may wish to think about routes, connections between places, frequency, fares, access, and how easy it is to get information about how to get around.

2. In the Assessment, we have considered how we can improve buses in our area through a Bus Franchising Scheme, when compared to continuing with the current Enhanced Partnership. [link to summary document].

These are the main features and aims of the franchising assessment which are likely to impact passengers. Please select all that are important to you:

- Simpler tickets and better value for money.
- Routes and timetables would be planned more consistently, helping buses connect better across the network and reducing cuts.
- Consistent and increased safety measures.
- One place to find information.
- One recognisable brand to help passengers travel with confidence.
- Greater ability for local people to influence the bus network and have their say.
- More public control over how buses are planned and delivered, focusing on people, not profit.
- Financial responsibility which will need to be managed carefully but gives the public sector the ability to strengthen and improve the bus network as well as making better use of public money.
- None of these are important to me
- Other [please specify]

3. Do you support the introduction of the proposed Bus Franchising Scheme in your area?

- Yes
- No
- Don't know

Please explain why.

4. If the main features and aims of the proposed Bus Franchising Scheme which are referred to in Question 2 are introduced, how would your use of buses change?

- I would use the bus much more often
- I would use the bus somewhat more often
- My use would stay about the same
- I would use the bus somewhat less often
- I would use the bus much less often
- Don't know

5. Do you have any concerns or think any challenges may arise if the proposed Bus Franchising Scheme was introduced? [open text]

You may wish to think about routes, connections between places, frequency, fares, access, and how easy it is to get information about how to get around.

6. Do you have any other reflections on the proposed Bus Franchising Scheme that you want to share? [Open text]



Dr Henry Kippin, Chief Executive
 North East Mayoral Strategic Authority
 The Lumen Blue Star Square
 Helix Business Park
 St James' Blvd
 Newcastle upon Tyne
 NE4 5BZ

16 June 2026

**Grant Thornton UK
 Advisory & Tax LLP**
 8 Finsbury Circus
 London
 EC2M 7EA
 T +44 (0)20 7383 5100

Dear Henry

Independent Assurance Report

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

Output

The Report must state whether, in our opinion:

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

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

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

Background

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

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

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

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

Responsibilities of the North East MSA

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

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

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

Our responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

Inherent limitations

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

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

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

Conclusion

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

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

Use of our Report

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

Grant Thornton UK Advisory & Tax LLP

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

Appendix 1 – Our Observations

Detailed below are our Report observations

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

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

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

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

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

**Bus Franchising Consultation Document
MSA response to the Independent Assurance Report**



Subject	Commentary	MSA Response
<p>Financial and Economic Assessment – Uncertainty in Forecasting</p>	<p>We are satisfied that the affordability and value for money analysis has been developed with appropriate care by suitably qualified experts and that the process was robust and in accordance with current guidance. However, it should be noted that variabilities always exist within this type of analysis and may impact on the financial forecasts and economic benefits of this Assessment.</p> <p>Throughout the Assessment, the Authority has reviewed available data and information sources, developing a set of baseline assumptions that have been used in the modelling of the franchising scheme, impacting both the economic and financial modelling. We acknowledge that economic modelling of this nature is inherently subjective and that reasonable practitioners may reach different conclusions when applying judgement to complex forecasting inputs. Our observations should therefore be read in that context.</p> <p>Whilst we understand the assumptions selected, due to a lack of contemporary industry data, we consider that there is an inherent risk that the outturn position would in practice be less favourable than the modelled scenario presented. In particular, while we acknowledge that there will be benefits derived from branding and marketing, the exact value of these are uncertain.</p> <p>We note that a sensitivity test has been run at a lower benefit level, more aligned to our professional view of a reasonable set of assumptions, and that under this sensitivity the economic case continues to demonstrate a value for money (VfM) outcome that remains sufficient to support the investment decision, albeit at a lower level. Should the lower sensitivity position materialise in practice, this would have an impact on the affordability position of the Assessment as discussed in our Observation in respect of the additional investment need, below. This financial risk is one of a wider set of financial risks inherent to bus franchising, which the Authority has considered in its Assessment. We would emphasise that forecasting and appraisal of this type is, by its nature, forward-looking and subject to a degree of uncertainty that cannot be fully eliminated.</p>	<p>The North East Mayoral Strategic Authority (MSA) notes the auditor’s confirmation that the underlying methodology is sound, is consistent with the latest applicable guidance, has been carried out by suitably experienced specialists and that the observation does not call into question the integrity of the approach.</p> <p>The MSA also notes the auditor’s acknowledgement that sensitivity testing with regard to branding and marketing impacts has been run at a lower benefit level and that under this sensitivity the economic case continues to demonstrate VfM. Were this scenario to materialise, franchising remains affordable.</p> <p>The MSA also notes the observation that there is a lack of contemporary industry data associated with branding and marketing interventions, and that inherent uncertainty exists in analysis of this nature.</p> <p>The MSA retains confidence in the assumptions that have been deployed in the FSA as the analysis undertaken is in line with Treasury Green Book requirements and this particular assumption is supported by qualitative analysis and experience from Tranche 1 of the Transport for Greater Manchester bus franchising scheme launched in 2023. This analysis suggested part of the bus demand growth was due to soft factors such as branding and marketing and of a magnitude in line with what has been assumed for the FSA.</p> <p>The auditor’s recommendation that the team continues to monitor actual outcomes against forecast benefits, revisits key assumptions at appropriate review points, and ensures affordability considerations are kept under regular review is accepted and such reviews fall within and will be undertaken in accordance with established processes as part of the MSA’s Single Assurance Framework.</p>

**Bus Franchising Consultation Document
MSA response to the Independent Assurance Report**

Subject	Commentary	MSA Response
	<p>The underlying methodology is sound, is consistent with the latest applicable guidance, and has been carried out by suitably experienced specialists. Our observations do not call into question the integrity of the approach adopted but rather reflect the inherent limitations of long-range forecasting and the sensitivity of the outputs to key assumptions. We recommend that the team continues to monitor actual outcomes against forecast benefits, revisits key assumptions at appropriate review points, and ensures affordability considerations are kept under regular review.</p>	
<p>Investment need presented within the Assessment</p>	<p>The Financial Case notes that an additional investment need of £83.8m is required over the first 10 years of franchising and identifies possible funding sources to cover this, noting that the central assumption is that this can be met from the Integrated Settlement. There is more limited reference made to the larger 30-year additional investment need of £334.1m.</p> <p>For modelling purposes, the Integrated Settlement has been assumed to continue across the first 10 years of the franchising period, with a similar mechanism assumed to be available for the remaining 20 years. However, the current Integrated Settlement is due to end during the initial franchise term, having been set for an initial period covering 2026 to 2030, which will result in a need for alternative funding to be identified beyond this period (noting that a need to identify funding would apply in both the franchised and EP scenario). In the event that alternative funding is not identified, the FSA acknowledges that the Authority would need to explore potential solutions, which either be to increase funding, or to make adjustments to the bus service in terms of network, fares and levels of service to ensure long term affordability. However, it should also be noted that if a decision to change services were made, some savings would not be immediate and may be limited.</p>	<p>The MSA confirms that the investment needed for franchising over the appraisal period of 30 years has been assessed robustly and presented within the FSA (see section 7.2, Figure 9, and section 7.4, Table 17). It has been established that the funding sources available to the MSA are sufficient to cover the identified investment need.</p> <p>Whilst true that the current Integrated Settlement is timebound, this is applicable to all grant funding originating from central government and represents a longer term funding source than others. Comparable funding sources have however been in place in the long term. This funding uncertainty also exists and is managed under the current Enhanced Partnership arrangements to fund significant investment in the bus network (public funding accounts for around 51% of operator income). Furthermore, the English Devolution and Community Empowerment Act 2026 provides a framework which enables the long-term commitment from central government to provide devolved areas, such as the MSA, with long-term, consolidated and flexible funding. Alongside government policy associated with the Act, it creates an expectation that government will match devolved powers with devolved budgets. Therefore, whilst the Integrated Settlement is time-limited, it is reasonable to expect that a similar funding settlement will be agreed for future periods.</p> <p>The MSA confirms that additional narrative has been added in the “franchising and call for investment conclusion” of the financial case summary section of the Consultation Document, strengthening this area of the financial case, and including the risk of the Integrated Settlement (albeit highly unlikely) not being guaranteed.</p>

Bus Franchising Consultation Document
MSA response to the Independent Assurance Report

Subject	Commentary	MSA Response
<p>Identified financial modelling discrepancy</p>	<p>During our review of the financial models supporting the Assessment, we identified a formula error within the staff cost calculations. While the correct input assumptions were included within the financial model, a calculation error meant these were not included within the total of the investment need. The excluded costs amount to approximately £2.3m (unindexed) per annum, resulting in a cumulative additional investment need of approximately £29.8m (indexed) over the period to 2038/39 and £104.9m (indexed) over the 30-year appraisal period.</p> <p>We consider it appropriate to treat this as non-material for the purposes of this Assessment for the following reasons:</p> <ul style="list-style-type: none"> • The existence of an additional investment need was already acknowledged within the Assessment; the omission increased its scale but did not alter its nature or the conclusions drawn regarding the affordability of the Assessment. • The Assessment already accepts that the additional investment required will need to be met from sources not yet fully identified, and this additional sum falls within the same category. <p>The discrepancy has been subject to appropriate scrutiny by the management team, including the Statutory Section 73 Officer, who has confirmed that the ultimate affordability gap remains within the parameters of the potential funding sources identified in the Assessment.</p>	<p>The MSA confirms that whilst the costs associated with additional staff required for Franchising (less than 1% of the overall bus industry annual operating costs) have been included in the model inputs as well as presented in the FSA (page 281, Table 13), due to a financial modelling discrepancy, these have not carried through correctly into the calculation of the overall investment need presented in the FSA. The financial model has been updated, and the updated investment need is set out in the Consultation Document (financial case executive and full summary sections) which clearly highlights where the information differs from the information in the FSA.</p> <p>The Consultation Document sets out the updated total additional cost of franchising both over the 10 year period (£113.0 million) and the 30 year appraisal period (£437.8 million). The MSA notes the auditor’s opinion that this does not represent a material impact on the overall conclusions of the FSA regarding affordability and value for money, and franchising remains better placed to deliver the region’s strategic objectives.</p>
<p>Establishment of Delivery Body arrangements</p>	<p>The implementation of Franchising depends significantly on the establishment of new Delivery Body arrangements. Importantly, the establishment of these arrangements falls outside the scope of the Assessment and is being progressed separately. This represents a material dependency: without a properly structured and adequately funded delivery approach, the strategic objectives and wider benefits of bus franchising cannot be realised.</p>	<p>The MSA agrees that establishing effective Delivery Body arrangements is critical to the implementation of a Bus Franchising Scheme and that a separate workstream, set out in the March 2026 North East MSA Cabinet report entitled ‘Bus Reform: approval to progress the Franchising Scheme Assessment’ in relation to this was approved and the workstream is underway.</p> <p>As described in the Cabinet Report, a Transport Delivery Body Transition Board has been established, chaired by the Chief Executive of the North East MSA and comprised of the officers responsible for the development of bus services across the region (from the North East MSA, Durham CC, Northumberland CC and Nexus) to oversee the work that is underway on the development of this Delivery arrangements, including funding, will be presented to Cabinet for approval. .</p>

Bus Franchising Consultation Document
MSA response to the Independent Assurance Report



Subject	Commentary	MSA Response
BSIP and Secured services funding	<p>In calculating annual BSIP and Secured Services income, the Authority has used confirmed 2024/25 values, rather than 2025/26 values, as the final values relating to that financial year had not been confirmed at the time the modelling was undertaken. It is noted that draft 2025/26 values were included (but not used) within the financial model. Instead, the 2024/25 values have been used, and have been assumed to increase annually at RPI.</p> <p>The difference between the agreed 2024/25 and draft 2025/26 values is significant. Extrapolated across the entire modelled term, this would significantly reduce the investment need required by the Authority to fund bus franchising. The use of the 2024/25 figures represents a prudent approach by the Authority and it is positive to acknowledge a degree of unmodelled upside that could potentially be used to counteract possible downsides identified in the franchising case.</p>	<p>The MSA notes the observations that the approach taken to BSIP and Secured Services Income funding is prudent and may have materially underestimated the amount of funding available for bus franchising, and is positive in providing a degree of unmodelled upside that could potentially be used to counteract possible downside scenarios identified in the franchising case.</p> <p>This will be kept under review if a decision is made to implement franchising.</p>
Operator Data in respect of small and medium operators	<p>The operator data received by the North East MSA is, in places, of inconsistent quality, particularly in respect of small and medium sized operators (SMOs). It is acknowledged that this is consistent with the challenges experienced by other authorities in gathering operator data for the purposes of assessing franchising. To address this issue, the North East MSA has considered data from both large operators and SMOs in aggregate, and, due to the issues in SMO data quality, has not been able to fully assess the differences in cost base of SMOs in comparison to a large operator. While this only represents approximately 11% of service mileage and 13% of Peak Vehicle Requirements, SMOs can represent disproportionate amounts of specific classes of services - for example school services.</p> <p>The Authority should ensure that, should it proceed to implement franchising, a detailed procurement plan is developed that gives specific consideration in respect of SMOs, with regards to contract sizes, pricing assumptions, and procurement qualification thresholds, to ensure the specific characteristics of SMOs are taken into account.</p>	<p>The impact on small and medium-sized operators (SMOs) has been robustly considered throughout the FSA, for example in section 5 of the commercial case. While operator data quality was variable in some areas, as is common with SMOs, this was recognised and addressed through the use of aggregated data across both large operators and SMOs, alongside other best practice methodologies to deal with gaps and variability in data. A comprehensive understanding of the SMO market (including data) has been built into the analysis through the experience of Nexus, Northumberland County Council and Durham County Council who currently contract SMOs to provide secured services and consequently have detailed knowledge of the regional SMO market.</p> <p>The MSA confirms that should a decision to implement franchising be made, a detailed procurement plan will be developed that gives specific consideration in respect of SMOs, as required by guidance and legislation.</p>
Franchising objectives	The Strategic Case sets out a range of objectives and associated outcomes and measures intended to support the comparison of	Six strategic objectives are established in the strategic case. These were developed with close reference to the MSA's policy framework – in particular the

**Bus Franchising Consultation Document
MSA response to the Independent Assurance Report**

Subject	Commentary	MSA Response
	<p>franchising with the Enhanced Partnership, alongside a capability-based argument that franchising is better placed to achieve these objectives.</p> <p>However, the definition of objectives and measures in some instances could be developed further to add additional clarity around SMART (Specific, Measurable, Achievable, Realistic, Time bound) characteristics (a requirement of the Guidance), and the use of at least one self-referential measure defined relative to the reference case being assessed.</p> <p>While this does not impact upon our conclusion with regards to the Assessment, incorporating these findings would provide for a strengthened Strategic Case that more clearly articulates why franchising performs better than the EP against these objectives. The Authority should ensure that, should it proceed to implement franchising, a detailed procurement plan is developed that ensures it aligns with the delivery of SMART objectives.</p>	<p>region’s Local Transport Plan and its ambition to create a green, integrated transport network that works for all. 13 intended outcomes complement the objectives, each of which is presented alongside a measure.</p> <p>As these objectives include measures which are Specific, Measurable, Achievable, Realistic and, Timebound, the MSA considers that the objectives set are sufficiently ‘SMART’ for their intended use in the FSA which is to enable an objective and informed comparison. It should be noted however that these objectives can only be finalised if the decision is taken to introduce a franchising scheme as the baseline for these objectives would be set from the implementation date.</p>
<p>Agglomeration benefits</p>	<p>The approach to calculation of agglomeration benefits is not strictly in line with DfT Transport analysis guidance (TAG) and uses a bespoke method that should only be seen as an approximation. Specifically, this bespoke method uses the estimated change in generalised cost for bus users in place of the change in generalised cost for all transport users, which could over-estimate benefits.</p> <p>Although the implication of this is not likely to be material to overall conclusions of the Assessment, in our view the business case would be strengthened by noting explicitly this divergence from DfT TAG.</p>	<p>The MSA notes that the auditor’s observation that the implication of this methodology is not likely to be material to the overall conclusions of the FSA. A bespoke method was applied as an alternative to complex modelling; this was judged to be appropriate and proportionate for impacts which are likely to be marginal and not materially impact the VfM.</p> <p>Furthermore, it is noted that agglomeration benefits only impact the ‘adjusted’ benefit-cost ratio (BCR); it does not impact the core BCR which only includes the monetised transport benefits.</p> <p>If the calculation of agglomeration benefits was adjusted to be aligned with TAG, this would only have a marginal impact on the ‘adjusted’ BCR and the franchising scenario would still represent ‘medium’ value for money (VfM),</p>
<p>Depot acquisition</p>	<p>The Commercial Case identifies depot acquisition as a critical dependency for the successful implementation of franchising and recognises the associated delivery risks. However, it does not clearly demonstrate how the Authority has assured itself that proposed contingency approaches, including the potential use of compulsory</p>	<p>The MSA notes the auditor’s observation and confirms that should a decision to proceed to franchising be made, a detailed acquisition plan in respect of depots will be developed, which would be implemented by the MSA and will include further detail on the deliverability of proposed contingency approaches (including any related legal processes) and will build on lessons learnt from other authorities that have implemented or are in the process of implementing bus franchising.</p>

Bus Franchising Consultation Document
MSA response to the Independent Assurance Report

Subject	Commentary	MSA Response
	<p>purchase powers, are legally robust and practically deliverable within the proposed transition timescales.</p> <p>The acquisition of depots is a critical enabler of franchising, without which, such a transition is unlikely to be feasible. It is acknowledged that this is consistent with the position of other authorities seeking to introduce franchising. Should the decision to proceed to franchising be made, a detailed procurement plan in respect of depots should give appropriate consideration to analysis of feasibility, precedent, timescale or risk in relation to depot acquisition contingencies.</p>	
Benefits from improved bus priority and bus stops	<p>The financial forecasts in the Financial Case incorporate a significant uplift in overall bus demand resulting from bus priority measures (2%) and bus stop improvements (2%). Based on additional evidence presented through our process of clarification questions, we are aware that, although not material to the assessment, the justification given within the FSA for the assumption did not accurately reflect why the amounts had been modelled.</p>	<p>The MSA notes the auditor's observation that this is not material to the FSA. As acknowledged by the auditor, further evidence was presented through the clarification question process. A broad assumption of the impact of these measures (2% for each programme) was applied in the FSA rather than model the impact on individual services/corridors. This assumption was sense-checked against outturn evidence of similar schemes and the MSA therefore consider the assumption to be appropriate.</p>
Typographical errors within the Financial Case	<p>The Financial Case contains typographical errors that, while not impacting on the outcome of the Financial Case (as the financial modelling itself utilised the appropriate figures), would benefit from being amended to aid clarity and readability of the case. In particular, we would note that:</p> <ul style="list-style-type: none"> • Section 2.2.3 of the Financial Case states that "£11.2 million is used to operate and subsidise services that are not seen as commercially viable by the commercial operators". This figure should have been stated as £13.5m • Section 4.4.13 of the Financial Case states that "ENCTS patronage is forecast to reduce by 22%". This figure should have been stated as 43% 	<p>The MSA confirms these are typographical errors in the narrative of the FSA and that the correct figures have been used in modelling. It is confirmed by the MSA as acknowledged by the auditor that these typographical errors do not have an impact on the outputs and conclusion of the Financial Case.</p>
Residual value mechanism for fleet	<p>Section 6.3.17 of the Financial Case states that ongoing fleet investment in the franchising case is assumed to be the same as in the current EP. The Authority has confirmed that they consider the introduction of a Residual Value mechanism with regards to the transfer of fleet from one</p>	<p>This observation is noted and the MSA will work through the exact nature of any Residual Value mechanism if a decision to implement the proposed franchising scheme is made, in order to address this risk.</p>

Bus Franchising Consultation Document
MSA response to the Independent Assurance Report

Subject	Commentary	MSA Response
	<p>operator to another will have no impact on the modelled costs of the Authority. While the exact nature of any Residual Value mechanism is yet to be defined, it should be noted that it is considered likely any such mechanism would result in the Authority assuming liability for the fair value of vehicles, which, if the network were to be reduced in scale during franchised operations, the North East MSA would be expected to meet, which could impact on the available funding of the Authority for other purposes.</p>	<p>The FSA models no reduction in the scale of the network over the first 10 years of franchising. Should decision makers decide to reduce the network thereafter, a long planning period for such change, as well as the likely small and gradual scale of any reduction, would make management of the fleet / residual value impacts manageable.</p> <p>We note that some other CAs have chosen to (or intend to) adopt a residual value mechanism.</p>
<p>Financial & Economic cases – impact of forecasting simplifications</p>	<p>Within the approach to forecasting operating costs and passenger demand/revenue there are two issues, relating to the quality of the analysis, which add to our conclusion that the franchising case may be positioned towards the upper end of the range of realistically possible outcomes for both affordability and the economic case. These are as follows:</p> <ul style="list-style-type: none"> It has been confirmed that no marginal impact of worsening road congestion on bus driver hours or fleet size has been taken into account in calculating operating costs. Although we understand that these impacts can be managed to a degree, we would expect this to be in tension with the improvements to performance and reliability that are also assumed. Although the Authority’s experienced advisor has confirmed its view that this omission is a reasonable simplification, in our view this simplification remains unjustified – and appears unnecessary given that the relevant factors are generated within other parts of the modelling approach. We note that no assessment has been made to support the assumption that no demand/revenue will be lost to routine occurrence of crowding. We would anticipate this to be localised and that the impacts on the case might be managed in practice. We concluded that, without any assessment of its potential significance however, this represents an unknown level of risk to the case. 	<p>The MSA considers that not including the marginal impact of congestion is a reasonable simplification as, in reality, mitigation measures would be put in place on the road network. This includes committed bus priority infrastructure measures. As this impact would apply in both scenarios it also has an immaterial impact on the FSA, and it has been demonstrated that a ‘worst case scenario’ of this would represent an adjustment of the BCR by 0.08.</p> <p>In terms of crowding, the MSA also considers that bespoke crowding analysis would not be proportional for this FSA as it is only valid at individual journey level, for which data is not available. At the strategic level, DfT bus statistics show average bus occupancy was circa 13 passengers for 2024/25 in English metropolitan areas which is far lower than capacity of a single decker bus (40-50 passengers) and a double decker (70-90 passengers).</p>
<p>Balance sheet assessment</p>	<p>It is a requirement of the statutory guidance in respect of the Financial Case that Authorities should undertake an assessment of how the</p>	<p>While a detailed assessment of the balance sheet implications of both options was not presented explicitly in the FSA, the MSA is satisfied that the balance</p>

**Bus Franchising Consultation Document
MSA response to the Independent Assurance Report**

Subject	Commentary	MSA Response
	<p>options considered would impact on the balance sheet of the franchising Authority.</p> <p>We note that an assessment of the balance sheet implications of franchising has not been included within the Financial Case. However, we have been provided with a briefing note, reviewed and confirmed as reflective of the understood balance sheet position by the Statutory Section 73 Officer at the North East MSA, that demonstrates the impact on the Authority balance sheet has been considered.</p>	<p>sheet implications of both options have been considered by the MSA and are fully understood.</p>
<p>Impact of franchising on SMOs in the Economic Case</p>	<p>The Economic Case section of the Franchising Guidance sets out that: “Particular consideration should be given to small and medium sized operators, and the potential impacts of the options on that group and that an authority should include in this section an assessment of local operators that they consider to be small and medium sized.”</p> <p>We note that the impact on SMOs has been considered within the FSA which reduces our concern in principle. However, it has not been addressed directly within the Economic Case section as specifically required by the relevant guidance.</p>	<p>The MSA considers that this guidance requirement is robustly met in other areas of the FSA which consider the impact on small and medium sized operators. While it may add clarity to include a cross reference to the Commercial Case (for example section 5.7) in the Economic Case, the MSA does not consider this an issue.</p>
<p>Operator data used to develop assumptions for the Assessment</p>	<p>As part of developing the Assessment’s assumptions, the Authority collected operator data from a range of sources, including large operators and a number of small and medium operators (SMOs). This data informed the patronage and revenue assumptions used within the Assessment.</p> <p>Operator-reported cost data was subsequently adjusted through triangulation against publicly available financial statements, resulting in a downward revision to operator costs to align model outputs with an assumed 4% operating margins.</p> <p>While triangulation against recognised external sources is a reasonable validation approach in circumstances where operator data is of variable quality, the Assessment does not make it clear to the reader that operator-reported cost data has been adjusted in this way. This creates uncertainty around a key input: If operator costs are higher than the adjusted figures suggest, the modelled financial outcomes could be less</p>	<p>The operating cost data received from operators was used as an input to the Operating Cost Model, however, this data was of variable quality in some areas.</p> <p>The MSA therefore triangulated operating cost data received from operators with evidence from publicly available financial statements and local knowledge from Subject Matter Experts (SME)s in the MSA. This resulted in a modelling adjustment being applied in order to reach a modelled position for the base year, which reflects operating margins observed and evidenced in audited financial statements, rather than an <i>assumed</i> operating margin.</p> <p>Due to the variable quality of the unadjusted operating cost data, it was not considered a credible starting position for modelling the reference case or franchising case without the modelling adjustment.</p> <p>The MSA notes the auditors’ observation that triangulation against recognised external sources is a reasonable validation approach in circumstances where operator data is of variable quality.</p>

Bus Franchising Consultation Document
MSA response to the Independent Assurance Report

Subject	Commentary	MSA Response
	favourable than the modelled scenario presented. The Assessment would be strengthened by explicitly acknowledging these adjustments, explaining the basis on which a 4% operating margin was considered a reasonable proxy for the true operator costs, and setting out the sensitivity of the financial outputs to this assumption.	The adjustment and approach are fully documented in the technical modelling suite of documentation.

Transport Act 2000

The North East Franchising Scheme for Buses [20**]

Made [20**]

Arrangement of the Scheme

THE NORTH EAST FRANCHISING SCHEME FOR BUSES [20**]	1
1 Citation and commencement	1
2 Interpretation	1
3 The Franchising Scheme Area	3
4 Entry into Local Service Contracts	3
5 Services under Local Service Contracts	4
6 Exceptions from the Scheme	4
7 Scheme facilities	4
8 Plan for consulting on operation of the Scheme	4
9 Variation and Revocation of the Enhanced Partnership	5
ANNEXES	
ANNEX 1 - EXCEPTED SERVICES (ARTICLE 6.1(A))	6
ANNEX 2 - NORTH EAST BUS FRANCHISING SCHEME AREA	7

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

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).

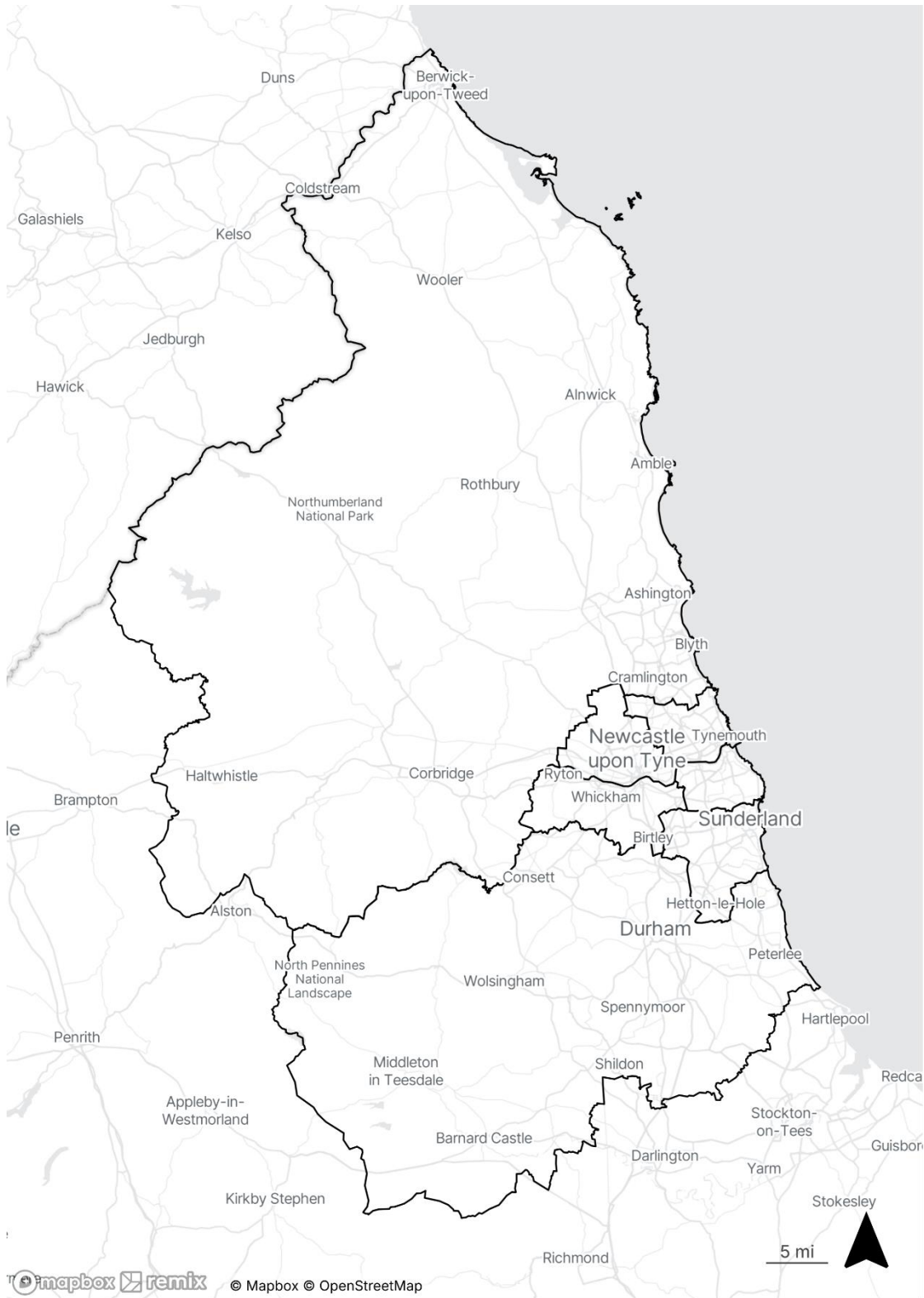
Annex 1 - Excepted Services⁸ (article 6.1(a))

- 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



Bus Reform – Full Equality Impact Assessment

March 2026

Full Equalities Assessment

Name of policy: Bus Reform – Development of a franchising scheme assessment (FSA)

Short description:

The North East Mayor and Mayoral Strategic Authority (North East MSA) are working with our partners to deliver a green, integrated transport network that works for all. This Full Equalities Impact Assessment (FEqIA) has been prepared to inform the MSA as to the potential equalities impacts of the proposed franchising scheme, and the design of its future consultation.

The preparation of an FSA is key part of the statutory process that must be undertaken to introduce a franchising scheme. Implementing a franchising scheme would constitute a fundamental change to the delivery model of local bus services in the North East as the region would move from a deregulated system with control of the bus network primarily resting with private bus operators, to a franchised system where bus operators bid for local service contracts, enabling them to run services to a specification set by the public sector. This would give the MSA control over local bus services including on aspects such as fares, routes and overall standards.

Subject to North East MSA Cabinet approval, the next stage of FSA development will involve the FSA undergoing an audit. Once the audit has concluded, the MSA will undertake a consultation on the proposed franchising scheme, where statutory stakeholders and members of the public will be invited to contribute their thoughts and opinions.

Age

Buses enable an ageing population to maintain social contact with friends and family who may live some distance away, can provide access to healthcare facilities and may help to avoid loneliness and isolation which can all affect wellbeing.

The age profile of our region is expected to change over the coming decades. The North East has an ageing population which will have an impact on future transport requirements. By 2040, one in four people will be 65+, resulting in the working age population falling.¹

Older people use buses disproportionately more than their younger counterparts, meaning that any effort to improve bus services in the North East will have an outsized impact on this group. In 2024, 75% of eligible pensioners in the North East (incl. Tees Valley) held a concessionary bus pass according to the National Travel Survey with nearly 1 in 10 trips taken by those aged 60 and over in the North East being made using local bus services.

Children and young people also rely more on public transport as a way to independently access education. According to the most recently published NTS data (2024), 15% of children aged

¹ [“Population projections”](#). North East Evidence Hub, 2024

between 5 and 16 in the North East (inc. Tees Valley) use buses (both local and private) for trips to and from school. Public transport offers a financially viable gateway to gain a sense of independence as young people are more likely to have lower paying jobs or are financially supported by their families or educational loans. Over 1 in 10 trips made by those aged between 17 and 20 in England are made using local bus services indicating the importance of this mode of transport for young people.

Improvements to the bus service that could potentially be brought about by the proposed franchising scheme will disproportionately benefit children, young people, and older people. The MSA will aim to ensure that these groups are adequately consulted during the public consultation by tailoring the consultation strategy to accommodate their specific requirements, such as through the use of age-appropriate engagement channels. The views gathered during the consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Disability

5.6% of journeys undertaken by those with a disability are by bus. This is in comparison to 4.12% of journeys taken by non-disabled people.²

Nationally, 11% of people aged 16 and over have some form of mobility difficulty, and 4.3% of their journeys are taken by bus as opposed to 2.9% for people with no mobility issues³.

It is clear from these statistics that people with disability/mobility difficulty are more likely to be bus users and as a consequence are much more likely to be positively impacted by any improvement to the bus service.

Over 21% of people living in the North East MSA area identified as having a disability in the 2021 Census, the highest percentage of all English regions⁴. Disabled adults take an average of 29% fewer journeys per year than non-disabled adults. Additionally, we know that the proportion of the population that is disabled increases with age, therefore we must consider that as the population of the North East ages faster than other regions, the proportion of people living with a disability in our region may also increase at a faster rate.

Therefore, ensuring that the views of disabled individuals are considered is critical to futureproof this proposal. The MSA will ensure that disabled individuals are adequately consulted during the consultation phase of the statutory process by engaging with disabled regular/prospective bus users, and/or organisations that represent the interests of disabled individuals. Furthermore, the consultation strategy will be designed to ensure accessibility for all those who wish to participate, such as through consideration of access requirements at event venues, and development of a suite of accessible document formats.

² ["National Travel Survey: 2024 - GOV.UK"](#). Department for Transport. 2025.

³ ["National Travel Survey: 2024 - GOV.UK"](#). Department for Transport. 2025.

⁴ ["Disability, England and Wales"](#). Office for National Statistics. 2023

The views of disabled people gathered during this consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Gender reassignment

There is currently no data on the bus use of individuals that are experiencing or have experienced gender reassignment. 0.55% of England’s population had a gender identity different from their sex registered at birth according to Census 2021. Surveys conducted in other parts of the country (namely, London) report that 91% of trans+ individuals alter their travelling behaviour out of concern of their safety and 80% of trans+ individuals feel like there is a possible threat of violence or harassment when they use public transport⁵.

With hate crimes directed against those with transgender identity rising by 58% between 2024 and 2025 in the North East⁶, it is likely that individuals that are experiencing or have experienced gender reassignment are encountering incidents that may make them feel unsafe when using public transport.

The MSA will aim to ensure that individuals that are experiencing or have experienced gender reassignment are adequately consulted during the consultation. The views of these groups gathered during this consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Sex

Nationally women use buses far more than men, The National Travel Survey shows that on average women took 45 bus journeys in 2024 and men 37.

Across all travel in 2024 men made 4% fewer trips (904 trips per person) than women (939 trips per person) but travelled 14% further (6,549 miles per person by men, as opposed to 5,633 miles per person by women)⁷.

DfT data also shows that women over 17 are also less likely to hold a driver’s licence: 71% compared to 80% of men⁸ and the DVLA report that only 35% of licensed cars are registered to women⁹.

⁵ “[Out in London: LGBTQ+ People’s Safety on London’s Transport Network](#)”. London TravelWatch, 2023

⁶ “[England and Wales Hate Crime Statistics](#)”. Home Office, 2026

⁷ “[National Travel Survey: 2024](#)”. Department for Transport. 2025.

⁸ “[National Travel Survey: 2024](#)”. Department for Transport. 2025.

⁹ “[Vehicle licensing statistics data tables - GOV.UK](#)”. Driver and Vehicle Licensing Agency. 2026

Due to these travel patterns improving bus journeys is therefore an impactful tool to further equality between men and women as women’s mobility will be disproportionately improved by improving bus services.

While there are no bus-specific crime statistics collected centrally, the British Transport Police (BTP) do record crime statistics for violence against women and girls on the railway. In 2024/25, reported VAWG increased by 5% compared to 2023/24, with a 10% increase in sexual offences. Crimes involving sexual harassment, were also up by 6%.¹⁰

Intersectional challenges can exacerbate violence against women and girls and perceptions of feeling unsafe on public transport, with only 17% of disabled girls reporting that they felt safe using public transport which is significantly lower than the 33% of non-disabled girls that reported feeling safe on public transport¹¹.

The MSA will aim to ensure that women are adequately consulted during the consultation. The views of women gathered during this consultation process will be considered and responded to by the MSA. The input received from this consultation would be used to work towards delivering on the second ‘One Million Women and Girls’ devolution pledge of working to ensure that women and girls can access safe transport. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Marriage and civil partnerships

No data is recorded for marital status and bus use. Additionally, marital status is unlikely to have significant impacts and therefore has not been appraised through this exercise.

Pregnancy and maternity

No data is recorded for pregnancy and bus use. Additionally, pregnancy and maternity status is unlikely to have significant impacts on bus use and therefore has not been appraised through this exercise.

The prior section on ‘Sex’ details how the MSA will look to ensure that women and girls are adequately consulted on the proposed franchising scheme during the consultation. During this consultation, the MSA will also look to engage with those who are pregnant or may be caring for babies to ensure that their views are also considered when developing a transition and implementation strategy.

¹⁰ “[Annual Report and Accounts](#)”. British Transport Police, 2025.

¹¹ “[2025 Girls’ Attitudes Survey](#)”. Girlguiding. 2025

Race and ethnicity

In the North East, people of ethnic minority backgrounds use buses significantly more than white people, with the National Travel Survey showing that 10.1% of trips taken by those who identify as an ethnic minority were by bus, as compared to 6.4% of trips taken by white people. Consequently, any positive reform to buses will disproportionately benefit people from ethnic minority backgrounds.

Racial hate crime recorded by the British Transport Police across England, Wales and Scotland increased from 2,827 cases in 2019-20 to 3,258 in 2024-25¹². In the North East, a total of 4,611 hate crimes were recorded across the Northumbria and Durham police areas¹³ in 2024/25 with race being the motivating factor in 72% of these crimes, an increase of 9% when compared to the previous year when race was the motivating factor in 63% of hate crimes¹⁴. Findings from focus groups conducted as part of the 'Safety and Public Transport in the North' report prepared by Transport for the North (TfN) indicate that individuals from ethnic minorities changed the way they travel in response to the 2024 riots with some changing the way they dress while on public transport while others changing the routes or modes of transport that they usually take¹⁵.

The MSA will aim to ensure that people belonging to ethnic minorities are adequately consulted during the consultation. The views of these groups gathered during this consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Religion and belief

Census travel to work data shows that 5% of the working population in the North East travel to work by bus. The two largest religious groups (Christian and those with no religion) travel to work by bus at the same rate as the regional average.

Bus use was generally higher among other faith groups, including Muslims (7%), Buddhists (7%) and Hindus (9%). These figures intersect with other equalities considerations, particularly race, and differences in bus use are unlikely to result directly from religion.

Bus use was lower than average among the Sikh (4%) and Jewish (3%) communities.

Improvements to services brought about by a franchising scheme are therefore likely to benefit the experience of religious groups with the highest bus use. Increased public sector direction of the network also presents opportunities to engage with those with the lowest bus use to understand any barriers and proactively reduce inequalities.

¹² "Racial and religious hate crime on UK public transport is growing, data shows". The Guardian. 2026

¹³ *The Durham Police Area covers Darlington as well as County Durham.*

¹⁴ "England and Wales Hate Crime Statistics". Home Office, 2026

¹⁵ "Safety and public transport in the North". Transport for the North. 2025.

There has been a 22.3% increase in hate crime motivated by religion between 2023/24 and 2024/25 in the North East¹⁶. Across England, Scotland, and Wales, religious hate crime recorded by the British Transport Police saw a similarly upward trend from 343 in 2019-20 to 419 in 2023-24 although it slightly dipped to 372 the following year¹⁷.

The MSA will aim to ensure that these groups are adequately consulted during the consultation. The views of these groups gathered during this consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Sexual orientation

No data is recorded for sexual orientation and bus use.

3% of the North East’s (inc. Tees Valley) population aged 16 and over identified with an LGB+ orientation¹⁸. Findings from focus groups conducted as part of their ‘Safety and Public Transport in the North’, TfN found that LGB+ communities felt that their sexuality impacted their safety when it became visible.

The MSA will aim to ensure that members of the whole LGBTQIA+ community are adequately consulted during the consultation. The views gathered during this consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Socio-economic background

Nationally, 40% of households in the lowest income quintile have no access to a car or van¹⁹. 8.6% of all trips made by households in the lowest income quintile are using buses. In fact, outside London, households in upper income quintiles make a lower number of bus trips when compared to those in lower income quintiles²⁰. Outside London, households in lower income quintiles also travel longer distances on their local bus services than those in higher income quintiles²¹.

Nearly 35% of North East residents live in Lower Layer Super Output Areas (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 North East having no access to a car or van²² compared to 20% in England outside of London. Annual bus use per head is also much higher in

¹⁶ “[England and Wales Hate Crime Statistics](#)”. Home Office. 2026

¹⁷ “[Racial and religious hate crime on UK public transport is growing, data shows](#)”. The Guardian. 2026

¹⁸ “[Sexual orientation, England and Wales](#)”. Office for National Statistics. 2023

¹⁹ “[National Travel Survey: 2024 - GOV.UK](#)”. Department for Transport. 2025.

²⁰ “[National Travel Survey: 2024 - GOV.UK](#)”. Department for Transport. 2025.

²¹ “[National Travel Survey: 2024 - GOV.UK](#)”. Department for Transport. 2025.

²² “[Car or van availability \(Census 2021\)](#)”. Office for National Statistics. 2023.

the North East (52.3) compared to England outside of London (35.95)²³. Bus density roughly aligns with areas of high deprivation, with a particular concentration in deprived urban areas²⁴. Therefore, increasingly costly fares are likely to have a disproportionate impact on lower income individuals.

The MSA will aim to ensure that these groups are adequately consulted during the consultation, such as by ensuring that decisions concerning the specific location of consultation activities are designed in such a way as to enable their involvement. The views of these groups gathered during this consultation process will be considered and responded to by the MSA. They will also inform the development of any transition and implementation strategy that may need to be designed depending on whether a mayoral decision to proceed with franchising is taken.

Fostering good relations

N/A

Summary

The FSA is a crucial step in the statutory process of exploring the feasibility of introducing bus franchising to the North East. The full equalities impact assessment conducted at this stage of the process has enabled the MSA to understand the differential impacts that this policy reform could potentially have on various communities in the region.

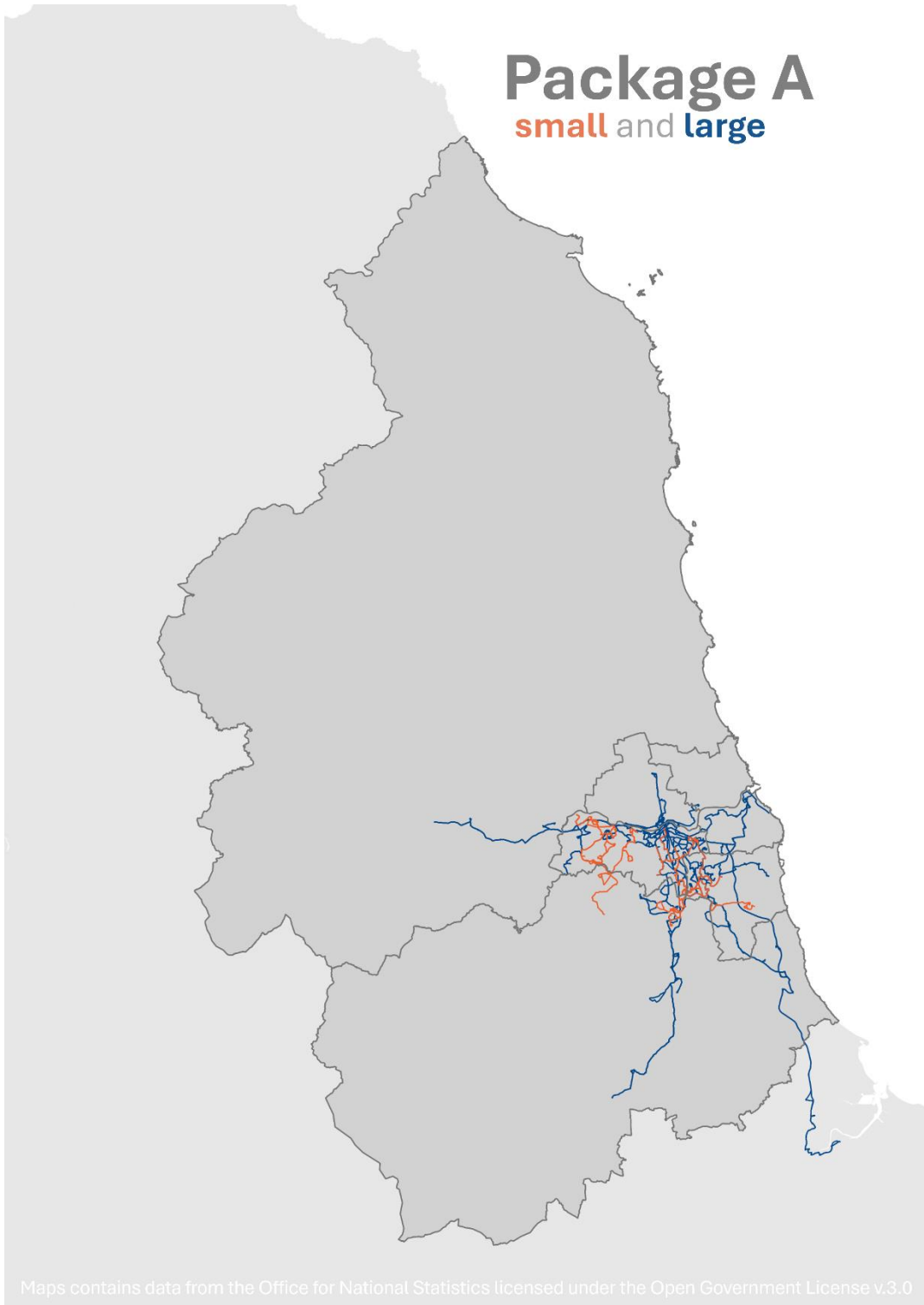
This FEqIA will be appended to the relevant Cabinet paper in March 2026 and shared amongst the MSA’s constituent local authorities, and any other relevant delivery partner/stakeholders, through distribution of the overall Cabinet paper. Additionally, the insights and information present in this FEqIA will help shape the consultation strategy that seeks to ensure that marginalised communities will have an opportunity to contribute their views.

²³ [“Bus statistics data tables: BUS01”](#). Department for Transport. 2025.

²⁴ [“English Indices of Deprivation 2025”](#). Ministry of Housing, Communities and Local Government. 2025.

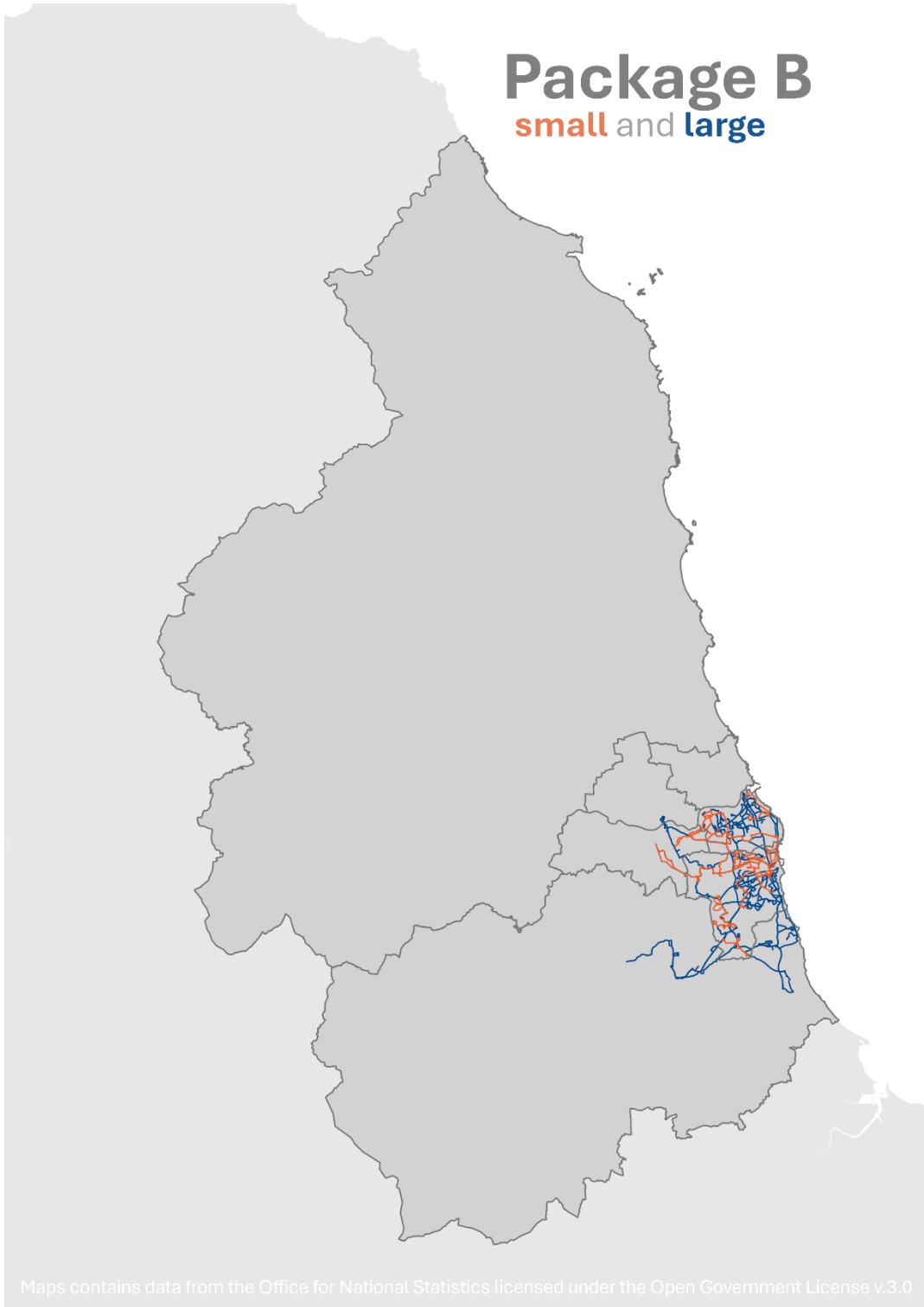
Package A

small and large



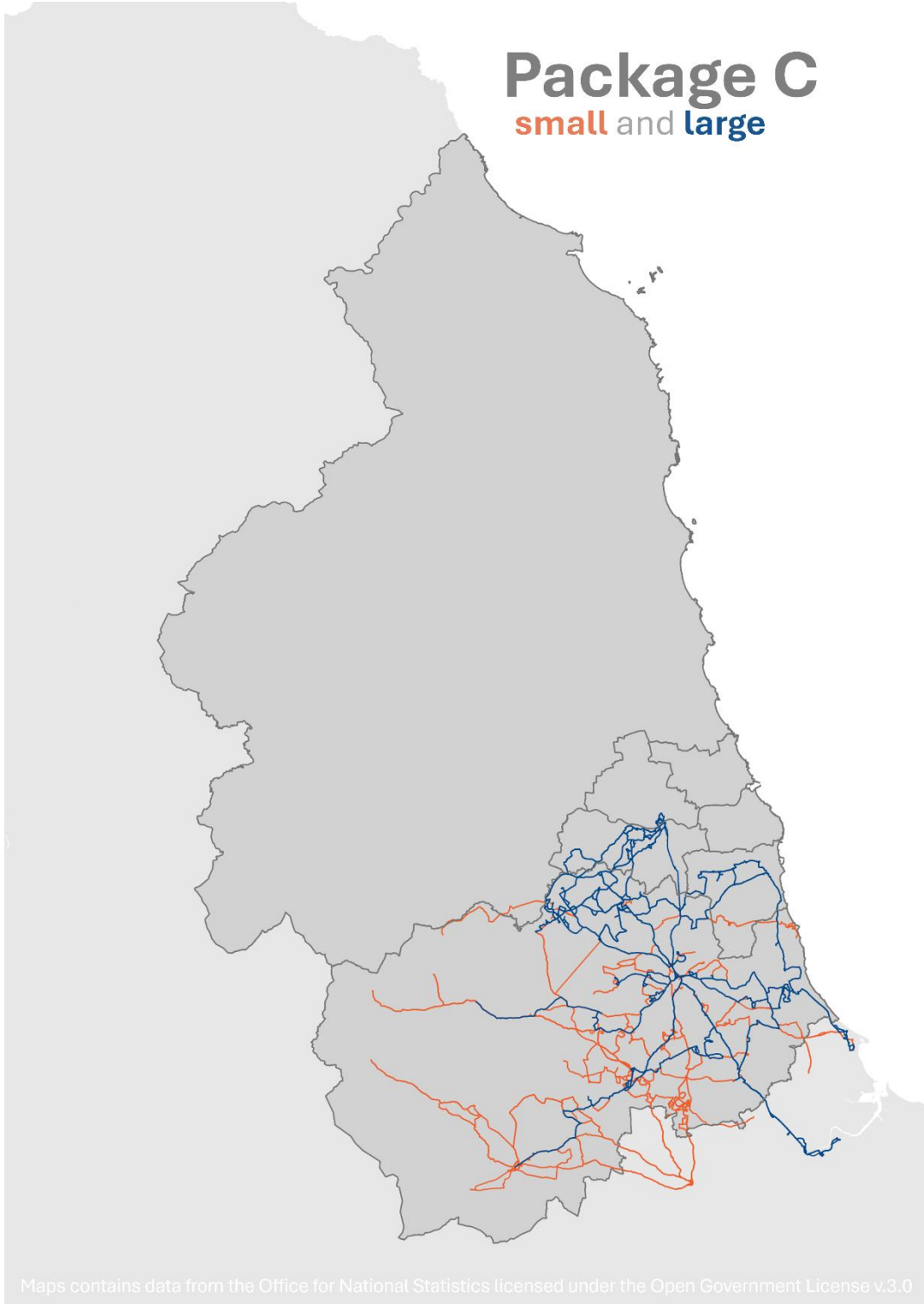
Package B

small and large



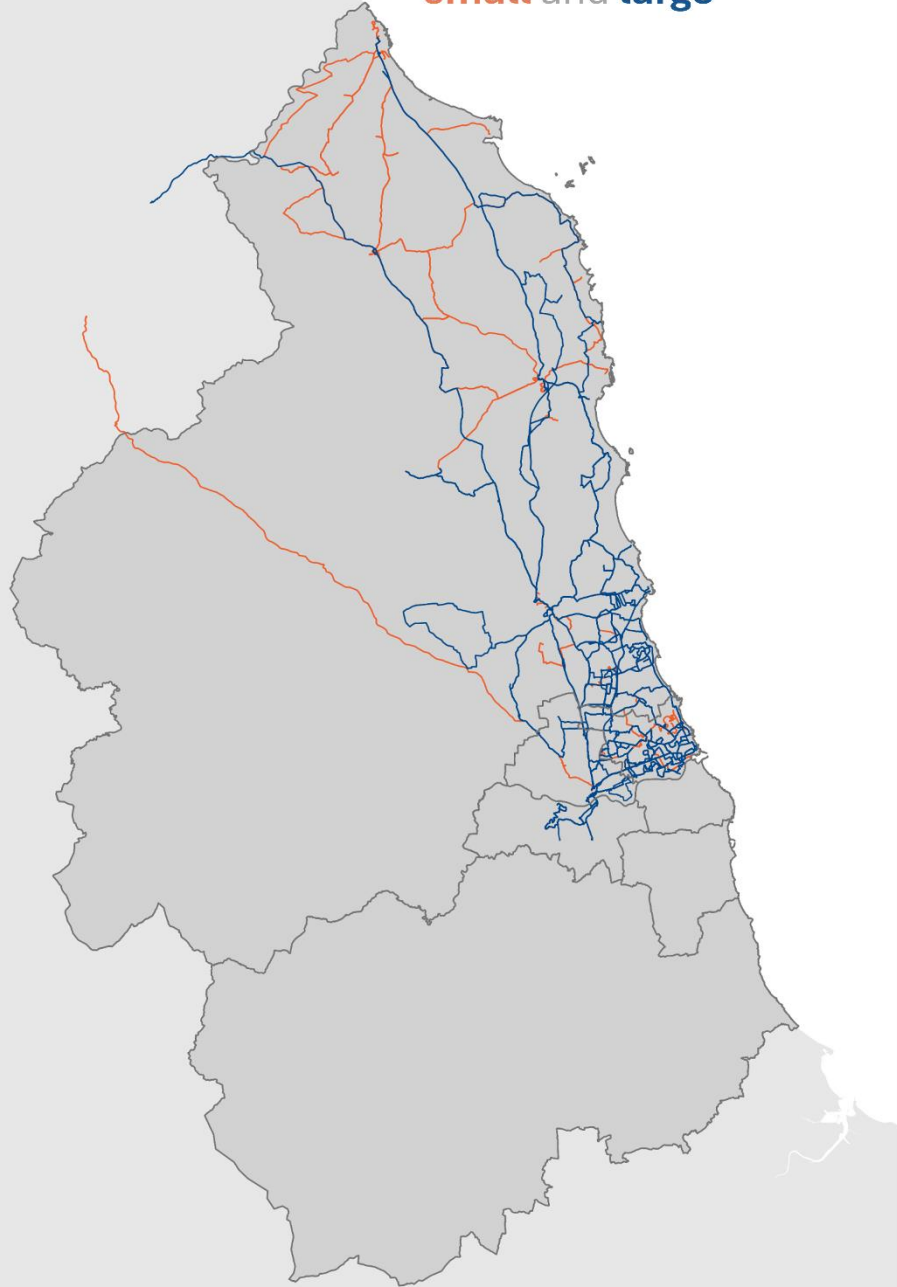
Package C

small and large



Package D

small and large



Maps contains data from the Office for National Statistics licensed under the Open Government License v.3.0

Package E

small and large

