

WMCA Bus Franchising Assurance Review

Key findings

Reliance Restricted

19 November 2024





Reliance Restricted

West Midlands Combined Authority
16 Summer Lane,
Birmingham,
B19 3SD

Ernst & Young LLP
Strategy and Transactions
Atria One, 144 Morrison St,
Edinburgh,
EH3 8EX

ey.com/uk

West Midlands Combined Authority (WMCA) Bus Franchising Assurance Review Report

19 November 2024

Dear Steve,

In accordance with your instructions, we have performed the work set out in our engagement agreement dated 6 September 2024 (the "Engagement Agreement").

Purpose of our Report and restrictions on its use

This report was prepared on the specific instructions of WMCA ('the Authority') solely for the purpose of its Assessment of its proposed franchising scheme "Bus Franchising in the West Midlands: Assessment 30 August 2024" ('the Assessment') as prepared in accordance with the Transport Act 2000 (as amended by the Bus Services Act 2017, 'the Act') and should not be used or relied upon for any other purpose. Because others may seek to use it for different purposes, this Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement Agreement. In carrying out our work and preparing our report, we and our subcontractor Systra Limited have worked solely on the instructions of WMCA for the purpose of assuring the Assessment.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third parties without our prior approval and without them recognising in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement. For the avoidance of doubt, our review of the Assessment does not constitute a statutory audit under the Local Audit and Accountability Act 2014 nor is our review of the Assessment conducted in accordance with auditing standards issued by the Financial Reporting Council. In carrying out our work, we have relied upon the information provided by and the assumptions made and described by WMCA and have not considered the impact of potential future changes in the UK bus market on WMCA's Assessment.

Our work was completed on 19 November 2024. Therefore, our report does not take account of events or circumstances arising, or information made available, after 19 November 2024 and we have no responsibility to update the report for such events or circumstances or information.

Yours sincerely,

Ernst & Young LLP

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1 Executive Summary



Key observations

Summary of findings to strengthen the Assessment (1/2)

Key observations

Strategic Case - The clarity and depth of the Strategic Case articulated during meetings with the Authority and its advisors could be recorded in the Assessment to provide a stronger justification for franchising. The draft Assessment has been drafted so as not to downplay the achievements to date under an Enhanced Partnership and has taken a prudent approach in its presentation of the negative impact of the dominance of one operator. It could be strengthened in relation to clearly articulating challenges, in particular fares and ticketing, contactless capping and lack of competition. The options assessment could be made clearer in assessing the strategic fit of each option individually against the objectives.

Economic Case - A key driver of the economic analysis is the operators' margin - the lower margin assumed in Franchising, reflecting the associated lower risk transfer to the private sector, releases more money to run services. For the purposes of the modelling, WMCA has reasonably estimated operators' margin under a Franchising scenario based on desktop research in comparable UK and European city regions, and WMCA has performed sensitivity analysis on the anticipated margin to understand the risk associated with this. However, the actual margin priced into the contracts will be a result of the competitive process of procuring the franchise lots - it will therefore be important to achieve strong competition in the franchise procurement process to maximise the forecast benefits of franchising.

Commercial Case - While WMCA has undertaken significant planning and strategic analysis around the commercial proposition, the maturity of lotting and depot strategy remains a risk. Work remains to be undertaken to fully specify lotting strategy, for example, confirming the number of small lots per zone and finalising depot locations for acquisition. As WMCA recognises, a sub-optimal lotting / depot strategy may result in reduced competition, delays, instability during the critical transitional period and ultimately a failure to achieve the benefits associated with franchising.

Financial Case - Our review of the draft Assessment identified that it would benefit from more detail being provided to explain the work performed in developing the affordability analysis. The approach adopted in the comprehensive scenario and sensitivity analysis has been to adjust the potential network service provision which would be deliverable under each of these circumstances. Discussions with the Authority have confirmed that it and its advisors set reasonable parameters in performing this analysis. The Authority also clearly described to us the practical actions that would be taken in circumstances where the modelling projected budget constraints in a particular year. The Authority has updated the Assessment such that these points are explained. The Authority has also provided evidence that decision makers and finance officers have been briefed on the implications of such decisions.



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Key observations

Summary of findings to strengthen the Assessment (2/2)

Key observations

Management Case - The Assessment notes that WMCA will adopt its established recruitment strategy in order to secure the additional employee resources required to transition to and deliver franchising.

Going forward, it will be important that the Authority develops a robust detailed recruitment / resourcing plan to bring in required commercial experience and appropriately upskill existing staff to deliver the transition and to manage new responsibilities effectively from day one.

Extent of the Assessment - The Assessment covers the Delivery Options, associated structural changes and ownership of depots and the fleet. In the case of the Franchising Option, this covers what might be considered “stage one” of franchising, which would increase WMCA’s control over the West Midlands Bus Network. It does not analyse any as yet uncommitted “stage two” deliverables, such as any significant changes to underlying services (eg, changes to fares and ticketing, routes, integration with rail/tram, any differential changes to timing of replacement and nature of the fleet) that WMCA might use that increased control for. As such, the full benefits and costs that would flow from a decision to adopt franchising may be understated.

We discussed this approach with WMCA and were informed that it reflects WMCA’s intention to be prudent in its forecasts. WMCA also commented that the details and timings of “stage two” activities are, at this stage, less certain, so there would be insufficient confidence in associated forecasts for these to be included in the Assessment. We therefore understand why this approach was taken.

The current stage of development of the process - There are inherent limitations with what can be expected at this stage of the process. As is normal for this stage in the development of a business case for a strategic change of this nature, the analysis is based upon WMCA’s high-level plans for bus services, the impact of which are forecast based upon a series of assumptions.

WMCA acknowledges that the scheme will be further developed and refined if it progresses, which will lead to changes in assumptions and outputs, both in terms of business case and the real-world implications for bus services.



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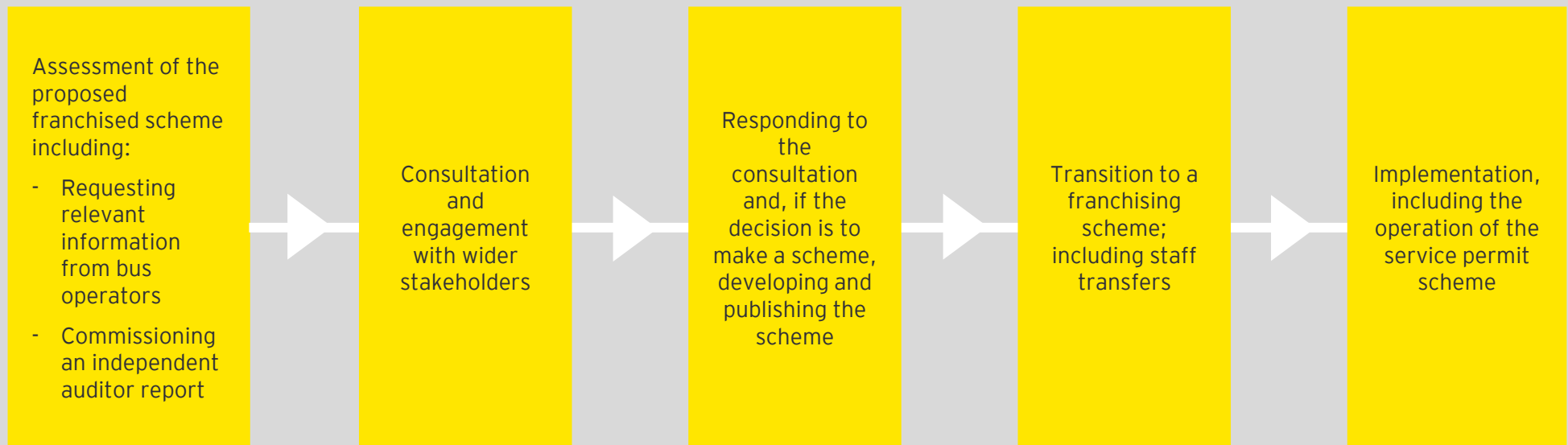
2 Introduction



Background

WMCA is required by law to commission an audit of its Bus Reform Assessment

The Transport Act 2000 as amended by the Bus Services Act 2017 (together 'the Act') sets out a comprehensive process that any Authority must follow prior to implementing bus franchising in its area. This is set out at a high level in the diagram below. A crucial component of this process is the Assessment phase, where the Authority must establish a solid business case for franchising.



Having prepared its Assessment, WMCA is required under the Act to commission a suitably qualified organisation to undertake an audit of the Assessment to provide an independent assurance report and to express an opinion in relation to the following areas:

- ▶ Whether the information relied upon by the Authority in considering the affordability and the value for money of the proposed scheme is of sufficient quality;
- ▶ Whether the analysis of that information in the Assessment is of sufficient quality; and
- ▶ Whether the Authority had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

WMCA appointed EY to this role on 6 September 2024.

The outcome of the audit is set out in our audit opinion letter, dated 19 November 2024.

This report is a separate assurance report, which records our broader observations on the draft Assessment and how it could be improved, and the Authority's responses to them.

Scope of our work

Our scope is derived from the Bus Services Act 2017 Franchising Scheme Guidance

Our role

In carrying out our review of the Assessment, we followed the Department for Transport's Franchising Scheme Guidance that was published in November 2017 ('the Guidance'). The Department for Transport subsequently issued updated statutory franchising scheme guidance on 27 March 2024 (the 'March guidance'); however, that March guidance states that if an Authority published its statutory notice of intent to develop a Franchising Assessment before 30 June 2021, the Assessment should have regard to the Guidance published in November 2017.

As stated in the Guidance at paragraph 1.87, our role is not to report or pass judgement on the decisions taken by the Authority or the outcomes of the Assessment, but rather it is purely 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.

The findings of our review should be considered in the context of the scope of our engagement and the limitations inherent in the nature of the review carried out, which are described in detail in Appendix A.

3

Approach and methodology



Approach and methodology

Our approach to the evaluation of the Assessment is summarised below

1

Compliance

- ▶ We compared WMCA's Assessment against all components set out within the Act and associated Guidance and requirements.
- ▶ We raised Clarification Questions ("CQs") as required throughout our review and these were reviewed and responded to by the WMCA team and its advisors. Where relevant, we arranged workshops/meetings to discuss queries and responses in further detail, and these were followed up with formal responses or requests for further data where required.

2

Cases

- ▶ We convened a kick-off workshop with the WMCA's Network Transformation team to understand, at a high level, the construct of the Assessment, supporting rationale and principles and conclusions drawn.
- ▶ An EY Case Lead was assigned to each of the 5 cases and individual deep-dive sessions were held with the responsible individuals from the Authority and its advisors (Addleshaw Goddard, PricewaterhouseCoopers (PwC) and Steer). The purpose of these sessions was to understand the following:
 - ▶ The approach undertaken for each case;
 - ▶ The information presented within the Assessment, including how it was developed, who has been involved, and the data sources used;
 - ▶ How each case linked with the wider Assessment; and
 - ▶ The key conclusions drawn.

3

Data

- ▶ We reviewed the documents and data sources shared with us by WMCA and its advisors to determine whether:
 - ▶ The information that has been used comes from reliable sources;
 - ▶ The information used is comprehensive or partial (or used selectively);
 - ▶ Available Operator Data has been considered appropriately;
 - ▶ The information used is relevant and up to date; and
 - ▶ The underlying assumptions appear reasonable and are suitably evidenced where appropriate.

4

Models

- ▶ We considered the suite of models ("the Models") to review:
 - ▶ The arithmetic accuracy of the Models used to calculate the impacts of the options considered, including a review of each unique formula contained within the models.
 - ▶ The logical integrity of the Models, i.e. whether they have been constructed appropriately so as to materially achieve their stated objectives, as set out in the Assessment and accompanying model documentation, giving due consideration to the data review points outlined above; and
 - ▶ That the specified extracts from Bus Services Act have been appropriately represented in the Models to the extent that they are material to the Models achieving their stated objectives.

Approach and methodology

Commercial review of models

Key reviews performed

In performing our review of the modelling suite, we carried out a commercial review of the models and associated assumptions and a test program of the formulae used in the principal calculation models.

Our commercial review consisted of a review of the comprehensive suite of Excel models¹ that support the calculations used to assess the options set out in the Economic Case component of the Assessment. As part of this review, we also examined the associated Assumptions Log.

Approach and methodology of the commercial review

- We were provided with a walk-through briefing of the approach taken by WMCA's advisors in preparing the models and associated assumptions.
- Following this we familiarised ourselves with the Assessment, with particular emphasis on the Economic Case and those parts of the report which helped to inform the Economic Assessment (e.g., descriptions of the initiatives associated with the various options for partnership and/or franchising).
- We followed the logical flow of outputs and inputs across the suite of Excel models to check that appropriate assumptions were carried forward from model to model.
- Using our knowledge of bus operations, we examined each model to ensure that robust and sensible assumptions and arithmetical relationships had been identified.
- We examined the Assumption Logs to ensure that assumptions were robustly evidenced and/or that sufficient explanation was provided where an evidence base might not exist - we used our knowledge of bus operations to check that WMCA's advisors had used reasonable evidence and/or knowledge to arrive at the modelled relationships.
- Where we identified any cause for potential concern or a need for clarification, we raised a CQ with WMCA and its advisors. We received the relevant responses and considered whether they address the concern or need for clarity, and either closed the CQ (as it was adequately resolved) or requested further clarification.
- Areas highlighted for correction or enhancement are documented in subsequent pages.

1 - Bus Demand & Review Model V0.23.xlsx, Drivers of demand and Revenue V0.23.xlsx, WM Budget Model V0.23.xlsx, WM Filtered Pax Revenue V0.23.xlsx, WM Operating Cost Model_v0.23.xlsx, WMCA - intervention model V0.23.xlsx, Base Year Model v0.23.xlsx, Economic Appraisal Assumptions Log v0.1.xlsx, Economic Case Modelling Assumptions Log v0.1.xlsx, WMCA Bus Reform Forecasting Models - Process Flow v0.1.xlsx, WMCA Financial Model - 27 08 24.xlsm, WM Budget Model v0.23.xlsx, EAM_vo.16_Clean.xlsx, WMCA Data Model - 27 08 24.xlsm

Approach and methodology

Commercial review of models

Key reviews performed

We performed a test program for four of the key Excel models that support the calculations used to assess the options set out in the Assessment.

Approach and methodology

In reviewing the Models, we considered the following:

WMCA Financial Model ('WMCA Financial Model - 27 08 24.xlsm')

- We undertook a formula review of all sheets included in the workbook. Macros have not been considered as part of this review as we understand that the macros in this model are redundant.
- The 'I_RevCost' tab has been reconciled to the 'O_RevCost' tab in the Data Model.
- Our findings were shared with WMCA and its advisors, who made updates to the model as appropriate.
- We also checked the references to figures in the Assessment which are included in the model. Comments were raised regarding a number of discrepancies between figures included in the Assessment and the equivalent figures in the Financial Model. The Authority confirmed that these have been corrected in the final iteration of the Assessment.

Budget Model ('WM Budget Model v0.23.xlsm')

- We undertook a formula review of all sheets included in the workbook. Macros were also reviewed.
- The macros have been re-run and calculated the variance between the output sheets (C; RC OUT, C; FC OUT. C: FP OUT) of the model shared with us and the values generated after running the macros.
- Our findings were shared with WMCA and its advisors, who made updates to the model as appropriate.

EAM ('EAM vo.16 Clean.xlsx')

- We undertook a formula review of all the sheets included in the workbook. The model does not include macros.
- The 'I; Budget Model' sheet was reconciled to the 'O; FZ5' sheet in the Budget Model.
- Our findings were shared with WMCA and its advisors, who made updates to the model as appropriate.

WMCA Data Model ('WMCA Data Model - 27 08 24.xlsm')

- We undertook a formula review of all sheets except the Test sheets which do not have any formulae. Macros have not been considered as part of this review as we understand that the macros in this model are redundant.
- The Test sheets have been compared to the relevant Test sheets from the output provided by Steer ('WMCA_SensitivityTest_200824 (v0.22).xlsx').
- Our findings were shared with WMCA and its advisors, who made updates to the model as appropriate.
- We also checked the references to figures in the Assessment which are included in the model. Comments were raised regarding a number of discrepancies between figures included in the Assessment and the equivalent figures in the Data Model. The Authority confirmed that these have been corrected in the final iteration of the Assessment.

4

Key observations



Key observations

Introduction

In line with the Guidance, we reviewed WMCA's Bus Franchising Assessment in order to assess the process followed, and relevance and suitability of the information used in the analysis.

In preparing this report, we have followed a methodology that addressed the various requirements of the Guidance by considering and commenting on:

- 1) Whether the data used by WMCA in the preparation of its Assessment comes from reputable sources, is used selectively or comprehensively and is relevant and up to date.
- 2) Whether the mathematical modelling of the analytical methods used to calculate the impacts of the options is accurate.
- 3) Whether the preparers of the Assessment had due regard for guidance and process in preparing the Assessment.

Data, Analysis and Process

In this section we present the key observations from our review. As agreed with WMCA, we have reported by exception, focused on providing constructive observations on where we believe alternative sources of data and different approaches to the analysis and/or the process may have been appropriate.

Our observations and findings are split into reviewing the quality of three specific areas, as summarised below:

Area	Page reference
1. Data	Pages 16 - 19
2. Analysis and modelling	Pages 20 - 25
3. Process followed by WMCA in preparing the Assessment	Pages 26 - 40

Other points for consideration

In the course of our work, we also identified some wider commercial considerations that, whilst they do not directly impact our review or the formation of our opinion, we believe WMCA should consider as it proceeds with the franchising process. We have included commentary on these in Section 5 'Other points for consideration'.

Key observations

Data - Review of data sources based on good practice (1/2)

Quality of data - Introduction

In line with the Guidance we have evaluated the data sources that have been used throughout the Assessment. The Guidance states that the auditor should take into account the quality and timeliness of any information received from bus operators and whether the information:

- ▶ Originates from recognised sources;
- ▶ Is comprehensive or selectively supports the arguments in favour, or against, any particular option;
- ▶ Is relevant and up to date and whether the assumptions are supported by recognised sources.

The table below provides an overview of the data quality by providing observations and commentary on areas based on good practice and our experience.

In addition to an overview of our key findings, we also proposed a number of suggested improvements. Whilst the suggested changes would not have a material impact on the Assessment's findings and would not lead to a qualification of our opinion if not acted upon, we presented them as potential ways in which WMCA could strengthen the Assessment. These points have been raised and discussed with WMCA during the course of our work and we describe the outcome of those discussions alongside each suggested improvement.

Quality of data	
Good Practice observation	Commentary
No significant and material gaps in the information used identified	Comprehensive information provided by operators and/or available via robust sources within WMCA/TfWM, with reasonable methods used to fill a small number of data gaps (eg for smaller operators).
The information used generally originates from recognised sources	As above: Information sourced from operators and/or available via robust sources within WMCA/TfWM, with reasonable methods used to fill a small number of data gaps.
The information used appears to have been selected objectively, rather than to support the arguments in favour, or against, any particular option	The evidence is presented objectively in the Economic Case - no evidence of selective bias was noted.
The Assessment takes into account effects or potential effects from the COVID-19 pandemic	The pandemic poses significant challenges for projections based on historic data given that (a) recent years were directly impacted by measures such as lockdowns and recovery in travel volumes and (b) new travel patterns are emerging post-pandemic, but it is still too early to determine how stable these trends will be and how travel patterns may continue to evolve. Taking that into account, attempts have been made by WMCA to interpret the data trends objectively, accompanied by appropriate sensitivity testing. The phased reduction in specific grant funding associated with COVID has been taken into account.

Key observations

Data - Review of data sources based on good practice (2/2)

Quality of data	
Good Practice observation	Commentary
The information used, collectively, is relevant and not significantly out of date	The data used is generally relevant and not significantly out of date. Some updating of the data has been undertaken. Our review identified some references in the assumptions log to superseded versions of the TAG Workbook, although the latest values have been used in the model.
The assumptions used in the Assessment are recorded and, where reasonably possible, supported by recognised sources	The Assessment includes a comprehensive assumptions log with clear referencing to recognised data sources.
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	<p>Most data and evidence can be well defined as regards base case, and as noted gaps have been identified and filled in an objective manner.</p> <p>The assumptions associated with future options (Future Partnership and/or Franchising) are inevitably more subjective as there is very limited evidence from similar approaches in other Combined Authorities. The assumptions associated with future options are largely identified along with associated risks. Where this could be improved, we have (a) raised this with WMCA and (b) documented it in this Report.</p> <p>We note that there are risks associated with price inflation which might not be accurately captured using RPI, particularly around construction costs and ZEBs; however, appropriate sensitivity tests have been undertaken which show that this does not change the ranking of options in the Assessment. There is also a potential cost upside associated with the assumption about depreciating ZEBs over 15 years - DfT advice assumes a 17-year life for ZEBs.</p>
Appropriate ranges have been used for forecasts and associated uncertainties identified in the Assessment	The Assessment has employed sensitivity testing where it is likely that assumptions could produce a range of potential results. Additional sensitivity testing has been undertaken to help confirm conclusions following our clarification queries. There are inevitably uncertainties around projections of future costs and revenues at this stage of an assessment. Decision-makers would benefit from regular review of these, and we understand that WMCA has put in place governance mechanisms to ensure this is the case.
The mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options	The modelling logic has been scrutinised and no unreasonable assumptions or relationships have been identified. Our formulae review did not identify any errors that had a material impact on the outputs of the analysis.
The Authority's assumptions on the costs and benefits of the best EP reflect the evidence available of what could realistically be delivered through an EP at the point at which the Assessment was developed	WMCA have engaged with the region's operators regarding a "best EP" (as the basis for the Future Partnership option) and this has been clearly articulated in the Assessment as an alternative option to franchising. The nature of a partnership approach means that there is less certainty associated with future outcomes than with a franchising approach where the CA has much greater control of outcomes (subject to legal and financial restrictions).
Availability, quality and - where relevant - timeliness of receipt from bus operators of the information available to the Authority	Bus operators have complied comprehensively with data requests.

Key observations

Data - Suggested improvements

Quality of data - Suggested improvements

In carrying out our review of the Assessment, we identified some areas relating to the underlying data where changes could strengthen the analysis.

The table below provides a summary of these proposed improvements in the data used, primarily related to the Economic Case.

Quality of data				
#	Proposed improvement	Outcome	Case ref	Guidance ref
1	<p>ZEBRA Funding</p> <p>We queried the assumptions made around ZEBRA funding, noting that changes in its availability could significantly distort the CapEx assumptions and have a knock-on impact on the assumptions regarding OpEx if the future fleet mix is different.</p> <p>We also discussed with WMCA the assumption of a government ZEBRA fund contribution to the cost differential between diesel buses and ZEBs, in the context of potential changes to government policy.</p>	<p>WMCA acknowledged that the Economic Case in the draft Assessment was not consistent with the Commercial Case, so the former has been updated.</p> <p>WMCA also updated the Assessment to make it clearer that the ZEB roll out is funding-dependent and unless additional funding is made available new ZEBs are unlikely to be delivered. However, this would be the same for each of the Delivery Options (Reference Case/Future Partnership/Franchising) meaning there is no net difference in ZEB effect across all three scenarios. It could also be worth referring to the sensitivity tests.</p> <p>WMCA noted that the description in the Economic Case of how the level of funding is derived is not correct and has been updated.</p>	Economic Case Modelling Assumptions Log	1.39-1.40
2	<p>We identified discrepancies between various calculations of average bus fare which needed to be reconciled as the assumed average fare could have significant impact on assumed revenue and therefore benefits.</p>	<p>WMCA's advisors noted that the resulting impact of these two changes on NPV is shown below.</p> <ul style="list-style-type: none"> ▶ Franchising Case (FC) - NPV reduced by 7% ▶ Future Partnership (FP) - NPV reduced by 5%. <p>Although these results have somewhat lowered the NPV, the conclusions from the Assessment remain unchanged.</p> <p>The Assessment has been updated to reflect this.</p>	Economic Case Modelling Assumptions Log	1.39-1.40
3	<p>Some rail data has been updated in light of queries and extended to include light rail as well as the suburban heavy rail network.</p> <p>The original low rail fare created the potential for under-estimating the adverse impacts on rail revenue and mis-representing the relative impact of interventions on different modes.</p>	<p>WMCA's advisors noted that the resulting impact of these two changes on NPV is shown below.</p> <ul style="list-style-type: none"> ▶ FC - NPV reduced by 6% ▶ FP - NPV reduced by 5% <p>Although, these results have somewhat lowered the NPV, the conclusions from the Assessment remain unchanged.</p> <p>The Assessment has been updated to reflect this.</p>	Economic Case Modelling Assumptions Log	1.39-1.40

Key observations

Data - Suggested improvements

Quality of data				
#	Proposed improvement	Outcome	Case ref	Guidance ref
4	<p>Depot Data</p> <p>Depot acquisition costs used within the Assessment differed from the valuations report provided by an independent valuer. WMCA has confirmed that these were uplifted by an allowance for contingency and taxation; however, analysis of the figures show that the uplift is not a consistent figure across all depots, for example 10% uplift is applied to one depot, versus 5% applied to another.</p> <p>We would typically expect to see a consistent level of contingency applied to costs, or a record of the reasons for a different approach. We have not seen evidence which explains the rationale behind the differing levels applied.</p> <p>Depot acquisition costs are not subject to indexation, this may risk understatement of these costs.</p> <p>The risk register refers to plans to update Depot valuations in October 2024. This has not yet been carried out and as such is not reflected in the Assessment.</p>	<p>We note that although the figures within the report do not agree to the valuations provided, the assumed costs used in the Assessment are higher than those provided in the valuation report. Although we have not seen supporting rationale for the varying levels of contingency applied, it appears that WMCA has followed a prudent approach by assuming a higher cost than that suggested by the valuation report.</p> <p>While depot acquisition costs are not inflated, we recognise it is complex to identify an appropriate multiplier for this, given the purchase price may vary based on a wide range of factors. Given a level of contingency has been included, this risk may be offset. We also note that sensitivity tests have been undertaken that model higher cost levels.</p> <p>WMCA has confirmed an updated valuations report will be sought but this will not be reflected in the Assessment, and therefore the basis for depot acquisition costs in the Assessment will be as at September 2023. A more up to date valuation would improve accuracy.</p>	Table 3-11	1.39
5	<p>SMO pricing</p> <p>We note that the Assessment does not include any price differential to reflect an anticipated increased cost / mile associated with smaller operators.</p>	<p>WMCA has noted that it will not update this assumption as there is a sensitivity which shows the impact of increasing overall operator margins which is intended to take this into account.</p>	Financial assumption	1.39
6	<p>Peak Vehicle Requirement inconsistency</p> <p>Our review of the draft Assessment noted that PVR data in Table 3-9 within the Commercial Case was incorrect and did not agree to the PVR the Strategic Case (Table 1-6).</p>	<p>WMCA has confirmed that the correct figures are those within Table 1-6 and that Table 3-9 has been updated. The outcome of the Assessment is not affected.</p>	Table 3-9	1.39

Key observations

Analysis - Suggested improvements (1/5)

Analysis of data - Introduction

In line with the Guidance, our evaluation focused on determining the extent to which the analysis of information is of sufficient quality and the mathematical and modelling accuracy of the analytical methods used to calculate the impact of the options.

To this end, we undertook the following analysis:

- A review of the modelling suite;
- A review of the underlying assumptions.

We raised Clarification Questions as required throughout our review. These were reviewed and responded to by WMCA and its advisors.

Through this process, we identified various areas in which improvements / updates could improve the quality of analysis and the strength of the Assessment.

Analysis and modelling

#	Proposed improvement	Outcome	Case ref	Guidance ref
Analysis				
1	<p>Budget overutilisation</p> <p>The Authority has undertaken alternative scenario and sensitivity analysis to examine the impact on the affordability of the proposed options of changing a range of factors. Under a number of the scenarios under the Franchising Option, the WMCA Financial Model calculated a level of budget utilised in excess of 100% of the budget available. This was not explained or referenced in the draft Assessment.</p> <p>We sought an explanation from WMCA and its advisors, who explained that whilst it tries to optimise the budget available for bus services to 100% (i.e. all the income the Authority receives is spent on services), the modelling process adopted meant that it generates a range of budget spend of between c.95%-100%. A level of tolerance was adopted such that for the purposes of the forecasts an overspend of less than 100.5% (such that it rounded down to 100% when expressed to no decimal places) was considered to be affordable.</p> <p>When questioned on this, the Authority explained that, in practice, if at any point spend on services went above 100%, the Authority would firstly use underspend from previous years which would be ringfenced and rolled over to years where overspend may happen. The Authority would ensure this is in line with internal treasury management activities.</p>	<p>The Authority has amended the Assessment to include this explanation of the process followed in relation to affordability and how any potential budget overspend would be managed.</p> <p>It also confirmed that the financial modelling has been updated to test that the cumulative underspend in all options during the appraisal period is enough to cover any potential overspend. This analysis showed all options to be affordable.</p>	8.57, various references in paragraphs 9 and 10, and 11.4. (Financial Case)	1.62

Key observations

Analysis - Suggested improvements (2/5)

Analysis and modelling				
#	Proposed improvement	Outcome	Case ref	Guidance ref
Analysis				
2	<p>Scenario and sensitivity approach</p> <p>The approach taken to the Financial Case affordability assessment is to set out a potential service provision that is within the available budget and scenario or sensitivity constraint environment in the Economic Case modelling, and then transfer these outputs to the Data Model and Financial Model to assess the affordability of each of the 24 scenarios and sensitivities.</p> <p>An alternative approach would be to create a single Base Case service provision under each of the Reference Case, Future Partnership, and Franchising Options, and model these service provisions under the alternative scenario and sensitivity environments to be tested. The outcome of the sensitivities could then be analysed and the actions that the Authority would take to mitigate any funding shortfall described. In this way, the Authority's approach to managing different outcomes would be presented as part of the Assessment.</p> <p>The result of the approach followed in the Assessment is that each of the scenarios and sensitivities are more likely to be deemed affordable for the Authority.</p>	<p>The Authority recognises that its approach is more likely to ensure the proposed options represent affordability but has intentionally developed its modelling in this manner as a recognition of the fact that, under Franchising, it would have control of the overall network.</p> <p>Furthermore, WMCA developed this approach on the basis that any significant economic-event sensitivities (e.g. unexpected increases in inflation) are equally likely to occur under each of the options for the future of the bus network. Further detail could be provided on these considerations in the Financial Case.</p>	10, 11 (Financial Case)	1.62

Key observations

Analysis - Suggested improvements (3/5)

Analysis and modelling				
#	Proposed improvement	Outcome	Case ref	Guidance ref
Analysis				
3	<p>Modelling of future changes to the route network.</p> <p>The approach to modelling future OpEx employs a simplified modelling approach based on mileage (eg, Driver costs are not necessarily directly aligned to mileage). When considering the appropriateness of this approach, our review identified apparent inconsistencies as to whether there an increase in quantum of operation is expected as a result of franchising, with reference made to 'additional services'. However, WMCA confirmed that there is not a net increase in operated mileage under the Partnership or Franchising Options relative to the base year. Instead, while service declines under all options, more services are retained in Partnership/Franchising relative to the reference case.</p>	Discussions confirmed that cost and revenue assumptions are consistent at the strategic level of the Franchising Assessment. The text has been aligned for consistency throughout the Assessment.	Economic Case, Para 2.11	1.39-1.40
4	<p>Demand redistribution</p> <p>In the budget model, the proportion of demand which is redistributed to other bus services after cutting is 50%. This appears optimistic, and we suggest it should be robustly evidenced in order to ensure that future demand and revenue estimates are robust in the "Do Something" options.</p>	WMCA has performed sensitivity testing in relation to this assumption, which suggests minimal impact from adjusting the percentage of retained revenue.	Budget Model	1.39-1.40
5	<p>Fixed Mark Up</p> <p>In the budget model, the Fixed Mark Up for supported services is assumed to be 9.9% which is based on an assumed 9% margin. We questioned the source of the assumed 9% margin as it appeared very high under current trading conditions. We also noted that the Operating Cost tab assumption appears to suggest a margin of 6.5% and asked whether these two assumptions could be reconciled.</p> <p>It is important for the analysis that future costs are accurately estimated as the benefits from franchising rely largely on an assumed reduction in profit margins through a change in delivery models.</p>	WMCA explained the apparent discrepancy to our satisfaction. It partially results from including some additional WMCA costs in the Fixed Mark Up calculation. The residual discrepancy is not material.	Budget Model	1.39-1.40

Key observations

Analysis - Suggested improvements (4/5)

Analysis and modelling				
#	Proposed improvement	Outcome	Case ref	Guidance ref
Analysis				
6	<p>Operating costs varying with mileage</p> <p>The Assessment should clarify the justification that 62% of operating costs vary with mileage based on analysis of the operating cost model outputs, as 38% fixed costs appears high. This is to ensure that future costs are accurately estimated.</p>	Variable costs associated with vehicles are treated as fixed in this analysis - in the context that this data is only used to support the trimming process and that trimming only applies in off-peak periods, then this presentation is acceptable.	Economic Case Modelling Assumptions Log	1.39-1.40
7	<p>Correcting engineering costs to vary with PVR has no impact on result</p> <p>We questioned the statement that correcting Engineering Costs to vary with PVR has no impact on results on the basis that, if the cost calculations support the trimming methodology, then treating Engineering Costs as variable not fixed could have an impact on the decision-making logic for the trimming process when trimming impacts a peak time period as less PVR will be required.</p>	Following discussions with WMCA, we note that whilst some components of engineering costs are likely to be fixed and other components to be variable, as trimming is only in off-peak periods when the impact on vehicle-related variable costs is zero, the conclusions do not have a material impact on the assessment and its outcomes.	Economic Case Modelling Assumptions Log	1.39-1.40
8	<p>Figures included in the Assessment</p> <p>Throughout the Financial Case, the Assessment makes references to figures which have been taken from the Data Model and Financial Model. The Authority provided a reference list to where these figures are sourced from. There were a number of discrepancies between the figures we were directed to, and those included in the Assessment.</p>	WMCA reviewed our findings of discrepancies between the figures used in the Assessment and those referred to in the Data Model. It was acknowledged that these were immaterial differences which did not affect the outcome of the options, and these would be amended in the Assessment following the next re-run of the consolidated model suite once all suggested amendments had been made.	5.20 (Figure 4-3); 5.39; Table 4-19; Table 4-21; Table 4-25; 9.3; 10.18	1.39-1.40

Key observations

Analysis - Suggested improvements (5/5)

Analysis and modelling				
#	Proposed improvement	Outcome	Case ref	Guidance ref
Analysis				
9	<p>Formula review of Budget, EAM, Financial and Data Models</p> <p>The formula review of the Financial Model identified a number of findings:</p> <ul style="list-style-type: none"> • 3 findings in the EAM, and 3 in the Financial Model were of a nature which could have a material impact on the results of the model, or where the model contained input data or assumptions which are not consistent with the data book. These related to incorrect references and calculations. • 8 findings in the Budget Model, 16 in the EAM, 25 in the Financial Model and 3 in the Data Model were of a nature which may not have a significant effect, but which may have a minor effect on the results of the model. • 6 findings in the EMA were of a nature that were considered to have no or negligible effect on the model's results. • 8 findings in the Budget Model, 25 in the EAM, 36 in the Financial Model and 1 in the Data Model were of a nature which raised a question to clarify or confirm the intended operation of the model. 	<p>WMCA reviewed our model review findings and confirmed that, where errors had been identified, they did not have a material effect on results.</p> <p>WMCA has updated the models to reflect the points identified in our review, the consolidated model suite has been re-run and the Assessment updated to reflect the new output figures. The results of these changes are not considered to be material to the results of the Assessment.</p>	Model Suite	1.39-1.40

Key observations

Modelling - Suggested improvements

Quality of modelling - Suggested improvements

The modelling includes a number of manual processes for key steps of the overall flow of data between models. A more efficient and reliable process could be followed in this regard.

Analysis and modelling

#	Proposed improvement	Outcome	Case ref	Guidance ref
Modelling				
1	<p>Manual transfers of data</p> <p>The method of transferring the outputs from the Economic Case modelling to the WMCA Data Model, and subsequently to the WMCA Financial Model for the purpose of the Financial Case affordability analysis is manual and involves an element of risk.</p> <p>Outputs from the Economic Case modelling are provided by Steer in a separate workbook, with individual tabs for each of the scenarios and sensitivities which are tested. These are copied and pasted to the WMCA Data Model by PWC. A similar approach is then used for outputs of the WMCA Data Model to be included in the WMCA Financial Model. We understand that a similar copy and paste approach has been used throughout the modelling suite.</p> <p>Whilst we did not identify any discrepancies that might have a material impact on the outputs of the model, we did identify instances where there were minor discrepancies on a number of inputs.</p>	<p>A best practice modelling approach would involve the automatic update of the relevant input tabs according to the relevant outputs. It should be considered whether adjustments can be made to the linkages between models in this regard, although we note that WMCA's advisors explained the reason for this was that they (Steer and PWC) are separate organisations running different systems.</p> <p>The Authority has stated it consolidated each of the points identified and updated for them in the final version of the model.</p> <p>If the changes to reduce the manual nature of these transfers are not implemented, rigorous checks should be performed in any future runs of the model to ensure that there are no errors resulting from this manual process.</p>	Financial Case models (WMCA Data Model; WMCA Financial Model)	1.62
2	<p>Model complexity</p> <p>The model has a complex structure which would benefit from streamlining to ensure data flows are simple and clear.</p>	<p>Discussions with the Authority and its advisors confirmed that the model suite has been used in previous bus franchising projects with other local authorities, and was considered to be fit for purpose for those. It has undergone several iterations of review, both in this project and in the previous projects.</p>	Model suite	n/a

Key observations

Process - Review of the process followed in accordance with the Guidance and Act

Process - Introduction

Over the following pages we comment on whether the Assessment has been prepared with due regard to the Guidance.

In carrying out our review, we compared the Assessment to the DfT Guidance in order to assess the degree of process compliance. We used the outcomes of this initial review to focus our subsequent review on the areas which we viewed as material to the Assessment.

Following this we ran a Clarification Question (“CQ”) process with WMCA to delve deeper into the process to increase our understanding of the steps taken in the development of the Assessment and, where appropriate, suggest improvements either to the process followed or to how the analysis that has been performed is presented and explained in the Assessment. The CQ process was conducted concurrently with a series of discussions and meetings with WMCA and its advisors which were used to gain further clarity and assurance regarding the process.

Our observations and findings are split into the following areas:

Compliance

The following page (page 27) provides a case-by-case summary of our view on the Assessment’s compliance with the Guidance.

Suggested Improvements

In our review of the Assessment, we identified several areas across each case where in our view the clarity and depth conveyed in discussions or CQs with WMCA was not reflected in the written Assessment. Pages 28 to 40 provide a summary of the more significant proposed improvements across each case.

Key observations

Process - Overview of adherence to the 'compliance' requirements (reported on by exception)

In our view, the Strategic, Economic, Financial, Commercial, and Management Cases of the Assessment meet the compliance requirements of the Guidance; however, as part of our review, we identified and discussed with the Authority areas where we believed the Assessment would benefit from updates or further clarity on a case-by-case basis. The following pages detail our observations, in which we comment by exception on each of the Cases.

1

Strategic

- ▶ We flagged to WMCA areas where we believed the clarity and depth of the Strategic Case articulated during meetings with the Authority and its advisors could be recorded in the Assessment so that it clearly demonstrated adherence to specific aspects of the Guidance and provided additional explanation of the challenges. It underplayed the dominance on a single operator, fares & ticketing and contactless capping challenges were not fully explained, and additional passenger feedback could be sought. The objectives should be made SMART, and the options assessment justification should consider each option individually. Having discussed these points with the Authority, we are satisfied with the outcome of each proposed improvement, i.e. additional narrative has been added to the Assessment.

2

Economic

- ▶ Our review of the narrative provided in the Assessment identified some areas where we believed the provision of further details would assist the reader. These have been raised with the Authority and we are content with its updates to the Assessment.
- ▶ Our review of the supporting models and assumptions log identified some inconsistencies between the Assessment and Assumptions Log. WMCA and its advisors have confirmed that they have addressed these in an updated consolidated run of the models and the Assessment. They also confirmed that none of the identified inconsistencies had a material impact on the Assessment and its outcomes.

3

Commercial

- ▶ WMCA's rationale for certain commercial decisions, e.g. the order and phasing of lot procurements, and optimal contract terms for small / large lots, is more fully documented in backup strategy documents. Where appropriate we have suggested that additional rationale be added to the Assessment to demonstrate adherence to the Guidance.
- ▶ Whilst the detail associated with the Lotting Strategy and interplay with the Depot strategy is at a level that would be expected for the Assessment, we suggested that a more thorough articulation of the current position on these strategies, including an assessment of potential impacts and mitigations for issues such as currently unconfirmed depot locations, would be helpful for the reader.

4

Financial

- ▶ We identified a number of areas where the Assessment would benefit from further detail on the analysis performed. These primarily related to the explanation of the approach adopted in the analysis of the affordability in the alternative scenarios and sensitivities, and in the reporting of the outcomes of these tests, particularly in reference to instances of potential budget constraints. WMCA proposed to add references to Treasury Management Principles that would be undertaken in the event of such outcomes, which addressed this issue to our satisfaction.

5

Management

- ▶ Our review identified some areas of the Management Case, including discussion of the recruitment strategy, where further detail and explanation would assist the reader. WMCA has updated the Assessment to address our comments.
- ▶ We also identified some inconsistencies between figures used in the Management Case which the Authority has addressed in its update and confirmed that these did not have a material impact on the assessment and its outcomes.

Key observations

Process - Suggested improvements - Strategic Case (1/4)

Strategic Case - Suggested improvements

In carrying out our review of the Assessment, we also identified a number of areas where the Assessment could potentially be improved and the case strengthened. The table below provides a summary of these proposed improvements in the Strategic Case.

The Strategic Case proposed improvements seek to bring the clarity and depth into the Assessment that was articulated to us in meetings with the Authority and its advisors (but not fully explained in the narrative of the Assessment) in order to clearly demonstrate adherence to the Guidance.

Process

#	Proposed improvement	Outcome	Case ref	Guidance ref
1	<p>Better matching of challenges and what reform is seeking to achieve</p> <p>Suggested improved matching of 'challenges faced' and 'what reform is seeking to achieve' through signposting with additional headings, in particular fares and ticketing, contactless capping and lack of competition (the challenge of one dominant operator is not separately identified), within the challenges section of Paragraph 5. Reshaping content to first set out what the challenges are to bus in the West Midlands and then set out what reform is seeking to achieve in relation to these challenges.</p> <p>Highlighted specific instances where additional detail, that was provided verbally in meetings, would help the reader understand the challenges.</p>	<p>Paragraph 5 text has been updated with consideration to presentation of challenges and what reform is seeking to achieve.</p> <p>WMCA has added examples and additional text to further explain challenges as follows:</p> <ul style="list-style-type: none"> • 5.12 in relation to patronage levers • 5.35 to explain bus competing with DRT • 5.38/5.40 to explain the fare capping challenge • 5.41 to explain the 'bonfire of the bus tickets' challenge 	<p>Para 5</p> <p>Specific examples: 5.12 5.35 5.38/5.40 5.41</p>	1.29 ¹
2	<p>Add information about the fares charged and tickets available</p> <p>Additional detail to be added to Paragraph 5 to include information about the fares charged and tickets available.</p>	<p>WMCA have added further detail to explain the fare pricing mechanism and fare increases in recent years and clarify tickets available following the Bonfire of Bus Tickets.</p>	5.43	1.30 ²

Guidance extracts:

¹ "The Authority or authorities should set out how local bus services fit into the transport system of the area, how they contribute to the Authority's or authorities' overall objectives, what challenges have been identified and how changes to the provision of local bus services could help address these challenges."

² "This should include information about trends in patronage, journey speeds and reliability, the fares charged and tickets available and any relevant data about the environmental performance of the local bus fleet."

Key observations

Process - Suggested improvements - Strategic Case (2/4)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
3	<p>Add passenger feedback</p> <p>Additional passenger feedback could be sought on the challenges identified in the Strategic Case, however it is recognised that the West Midlands stats from the National Bus Satisfaction Survey have been captured.</p>	Confirmation that the West Midlands statistics from the National Bus Satisfaction Survey have been captured.	Para 5	1.30 ³
4	<p>Objectives to be made SMART</p> <p>Objectives to be expanded in Paragraph 6 to be measurable and time-bound in order to clearly demonstrate that objectives are 'SMART'.</p>	Amendments made to paragraph 6 of the Assessment to explain how and across what timescales each of the objectives will be measured.	Para 6	1.35 ⁴
5	<p>Options assessment narrative to be made clear and comprehensive</p> <p>Table 1-2: Strategic Fit of Delivery Options against Objectives provides a high-level summary of the justification for the level of strategic fit of each option against the objectives and should be more detailed ensuring that each option is discussed and justification fully explained.</p>	Acceptance of this comment and amendments made to the table to provide more detail on the extent of impact of the Delivery Options on each Objective, together with signposting to where in the document the additional information requested is included.	Para 7.9 Table 1-2	1.36 ⁵

Guidance extracts:

³ "The Authority or authorities should consider this information and should also obtain and consider information about the needs and opinions of passengers in the area and their views on the provision of local services - what passengers are looking for from bus services and public transport more generally, to what extent they are satisfied with current services, and where they would like to see improvements made."

⁴ "Authorities should set out specific, measurable, achievable, realistic and time-bound objectives for local bus services in the relevant geographical area, which will contribute to achieving the authorities' overall local transport policies and other relevant and published policies."

⁵ "Authorities should complete an options assessment exercise, identifying a number of options that have the potential to achieve the objectives it has set. Authorities should consider, at a high level, the extent to which each of the options is likely to achieve the desired outcomes and meet their objectives. As a result of that analysis, authorities should focus in on a small number of options for further detailed assessment."

Key observations

Process - Suggested improvements - Strategic Case (3/4)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
6	<p>Options assessment narrative to be made clear and comprehensive Suggestion to make Paragraph 8 more clear in the narrative describing the strategic fit of each of the three options against the objectives by separating narrative by option: EP; Future Partnership; and Franchising; and providing additional narrative where necessary to ensure that all options are discussed in relation to all objectives.</p>	<p>Response confirmed that Paragraph 8 is to provide justification for how the key challenges set out in Paragraph 5 can be mitigated by regulatory reform and is not specific to any option.</p> <p>Instead, this point has been addressed in the Assessment by providing more information on the extent to which each delivery option might impact each Objective in Table 1-2 and Paragraph 5, which is also now cross-referred to in Table 1-2.</p>	Para 8	1.42 ⁶
7	<p>Updating statistics (where appropriate) Following clarification, the following statistics referred to in the Strategic Case were found not to be the latest available and proposed to be updated accordingly:</p> <ul style="list-style-type: none"> West Midlands Local Skill Report 2021 Department for Transport March 2023 Costs, fares and revenue (BUS04) 	<p>Statistics to be updated as follows:</p> <ul style="list-style-type: none"> West Midlands Local Skill Report 2022 Department for Transport March 2024 Costs, fares and revenue (BUS04) 	4.3 5.9	n/a

Guidance extract:

⁶ "The Authority should explain the extent to which each of the options considered will help achieve their policy objectives, and should similarly list its relevant local neighbouring authorities and consider the extent to which the options would help in the delivery of their policy objectives."

Key observations

Process - Suggested improvements - Strategic Case (4/4)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
8	<p>Further explanation</p> <p>As part of our review of the Strategic Case we identified specific areas where we suggested further explanation be provided to assist the reader's understanding, noting that these suggested amendments were not required to adhere to the Guidance.</p>	<p>Suggested additional text as follows:</p> <ul style="list-style-type: none"> 5.9 - explain contributing factors to increase in bus operating costs 5.10 - explain extent of West Midlands driver shortage 5.14 - explain why routes have not been tendered in context of £50m subsidy 5.21 - clarify point regarding coverage 5.34 - unable to quantify inefficiencies; broader point that resources could be redistributed elsewhere made 5.47 - note that investment in ZEB may be more efficient under franchising - WMCA declined to amend text for this as fleet is not regarded as part of the justification for franchising. 5.53 - modelling output & further detail on 'example' 7.15c - provide context to application of permits in cross boundary services 	<p>5.9</p> <p>5.14</p> <p>5.21</p> <p>5.34</p> <p>5.47</p> <p>5.53</p> <p>7.15c</p>	n/a
9	<p>Cross referencing to the Strategic Case Appendix</p> <p>Suggested cross referencing to the Strategic Case Appendix (which details the three options being considered in the Assessment) from the Strategic Case paragraphs to the Appendix and vice versa to assist the reader in locating the detailed explanation of the options being assessed in Paragraph 7.</p>	Referencing added to the Assessment.	Appendix	n/a

Key observations

Process - Suggested improvements - Economic Case

Economic Case - Suggested improvements

In carrying out our review of the Assessment, we identified a number of areas where the Assessment could potentially be improved by providing the reader with more detail. We also identified some areas of inconsistency between the Assumptions Log and the Assessment which WMCA corrected.

The table below summarises the proposed improvements suggested in relation to in the Economic Case.

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
1	<p>Explanation of interventions</p> <p>Providing additional explanation in paragraphs 2.9 and 2.10 of the interventions that would deliver the competitive pressure, ie the introduction of competitive tendering for franchises and change in ownership of the depots and fleets to facilitate new entrants to the region, would help demonstrate to the reader that these drive the main differences between the Delivery Options.</p>	<p>WMCA agreed that the text would be updated to make this clearer for the reader.</p>	<p>Economic Case 2.10</p>	<p>1.39-1.40</p>
2	<p>Assumptions Log discrepancies</p> <p>Our review identified a small number of discrepancies between the Assumptions Log and either the figures stated in the Assessment or the assumptions used in the modelling suite.</p> <p>For example, in relation to the number of additional vehicles that would be required to run the network as a result of switching to ZEBs: the figures used in the Economic Case Assumptions Log - Appraisal fleet assumptions was 10%, whereas the Assessment stated 5%.</p>	<p>WMCA and its advisors acknowledged these differences and stated that in each instance the figure provided in the Assumptions Log related to a previous run of the Model and was therefore out of date.</p> <p>WMCA confirmed that the Assumptions Log would be updated to reflect the correct assumptions used in the final run of the Models.</p>	<p>Economic Case Assumptions Log</p>	<p>1.39-1.40</p>

Key observations

Process - Suggested improvements - Commercial Case (1/3)

Commercial Case - Suggested improvements

In carrying out our review of the Assessment, we also identified a number of areas where the Assessment could potentially be improved and the case strengthened. The table below provides a summary of these proposed improvements in the Commercial Case.

The table below provides a concise summary of these proposed improvements in the Commercial Case.

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
1	<p>Lotting Strategy</p> <p>The lotting strategy will require further development, for example we understand there is not currently clarity on how many small lots there will be per zone (although there will be between 1 and 3) due to inevitable uncertainty of how the network may evolve over future months.</p> <p>As the process progresses, it will be important to clearly articulate the rationale for key commercial decisions, e.g. linkage of commercial objectives to the lotting strategy.</p>	<p>WMCA agreed to update the Assessment to include additional detail in their risk register regarding the risks associated with a sub-optimal lotting strategy, and associated mitigations and plans for management of this as the process progresses.</p>	<p>Para 6.7</p>	<p>1.67¹</p>
2	<p>Transition to franchising</p> <p>Further detail on the rationale behind the order of procurement of lots within zones should be included to better explain transition plans. This detail is included within the lotting strategy, including leaving sufficient profitable routes to sustain the commercial market, and allowing sufficient time for depot acquisition or construction.</p>	<p>WMCA agreed to update the Assessment to include additional detail on the rationale for the proposed order of lot procurement / transition to franchising.</p>	<p>Para 6.10</p>	<p>1.66²</p>

Guidance extracts:

¹ "Authorities should ensure they have considered the following factors, set out their proposal in relation to each and their reason for adopting such a proposal: - Whether franchising will be phased-in gradually"

² "Authorities should consider the transition periods to the new options, setting out how they intend to ensure that services to passengers are protected during that period, and what commercial arrangements they plan to put in place to manage that process."

Key observations

Process - Suggested improvements - Commercial Case (2/3)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
3	<p>Depots</p> <p>The Assessment notes that there remains uncertainty around the specific locations of depots, particularly for Birmingham East. We understand progress has been made on this. Similarly, the Assessment refers to certain depots being “not ideal” and “location sub optimal”. The Assessment would benefit from clearer articulation of risk management and mitigation plans, e.g. “backup” sites identified and/or potential impact on zoning strategy if sites cannot be secured.</p>	<p>WMCA agreed to update the Assessment to include additional information regarding depot strategy, including detail on alternative ‘backup’ locations within the current the zoning strategy.</p>	<p>Table 3-11</p> <p>Table 4-24 (Financial Case)</p>	1.67 ³
4	<p>Contract length</p> <p>Detail and rationale for proposed contract length (of 7 years) could be strengthened, including explanation around where these lengths may differ for small lots and the reasons for this.</p>	<p>WMCA noted it accepts this but considers it to be a level of detail not necessary for the Assessment and will be subject to more detailed consideration if Franchising is to progress. Although we consider this would strengthen the case, we do not consider its inclusion to be material to meeting the Guidance.</p>	<p>Para 6.11-6.12</p>	1.67 ⁴
5	<p>Commercial Model</p> <p>KPIs and performance metrics have been set out, however these may benefit from consideration of any incentive regime required to encourage operators (lacking revenue risk) to continue to grow patronage and farebox revenues.</p>	<p>WMCA noted it accepts this but considers it to be a level of detail not necessary for the Assessment and will be subject to more detailed consideration if Franchising is to progress. Although we consider this would strengthen the case, we do not consider its inclusion to be material to meeting the Guidance.</p>	<p>Para 6.59</p>	1.67 ⁵

Guidance extracts:

³ “Authorities should ensure they have considered the following factors, set out their proposal in relation to each and their reason for adopting such a proposal: - The key commercial risks, their potential impacts and how they would be mitigated and managed”

⁴ “Authorities should ensure they have considered the following factors, set out their proposal in relation to each and their reason for adopting such a proposal: - The length of contracts”

⁵ “Authorities should ensure they have considered the following factors, set out their proposal in relation to each and their reason for adopting such a proposal: - The commercial model they intend to employ”

Key observations

Process - Suggested improvements - Commercial Case (3/3)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
6	<p>Procurement timetable & Implementation plan</p> <p>The implementation plan within the Assessment currently shows the Utilities Dynamic Market (UDM) set up activity taking place after the start of the Round 1 procurement activity. Given the UDM will be used to pre-qualify bidders, this should be moved to before the Round 1 procurement within the implementation plan.</p>	WMCA accepted this change is required to improve the accuracy of the implementation plan.	Figure 3-10	1.64 ⁶
7	<p>SMOs</p> <p>Reflecting the experience in Greater Manchester, developing a commercial proposition which SMOs appropriately bid into may prove challenging.</p> <p>While the case currently meets the Guidance in this area, further considerations such as differentiation in procurement plans between small and large lots would improve this, e.g. SMOs are unlikely to be able to comply with the same level of tender / bid documentation compared to larger operators.</p>	WMCA noted it accepts this but considers it to be a level of detail not necessary for the Assessment and will be subject to more detailed consideration if Franchising is to progress. Although we consider this would strengthen the case, we do not consider its inclusion to be material to meeting the Guidance.		1.64 ⁶

Guidance extract:

⁶ "Authorities should consider how the options could be procured competitively and what the contractual arrangements would look like, with the view to ensuring, for franchising proposals in particular, that the proposed franchised services could be secured under local service contracts or through service permits. In particular, authorities should consider how they intend to facilitate the involvement of small and medium sized operators, bearing in mind the need to ensure competition for the first and subsequent rounds of procurement."

Key observations

Process - Suggested improvements - Financial Case (1/2)

Financial Case - Suggested improvements

We have identified areas for suggested improvement in the Financial Case specifically in relation to the actions which can be implemented to mitigate the impact of the instances of budget overutilisation shown in the Financial Model, and explaining the reason for the approach taken to the scenario and sensitivity analysis process.

The table below provides a concise summary of these proposed improvements in the Financial Case.

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
1	<p>Budget overutilisation</p> <p>As noted on page 20, the Authority's process of examining the overall affordability across the appraisal period makes allowances for instances of relatively small (often less than 1%) technical budget overutilisations. Having discussed this with WMCA, we understand its approach to this analysis; however, given the importance placed on the Assessment of the "affordability of the scheme" in section 123B(3)(d) of the Act, we believe the Assessment should explain the tolerance to the modelled overspend applied.</p>	<p>The Authority has amended the Assessment to include an explanation of the process followed regarding affordability. The Assessment has also been updated to describe how any potential budget overspend would be managed.</p> <p>The Authority also confirmed that the Financial Model has been updated to test that the cumulative underspend in all options during the appraisal period is enough to cover any potential overspend. This analysis showed all options to be affordable.</p>	8.57, various references in paragraphs 9 and 10, and 11.4. (Financial Case)	1.62
2	<p>Scenario and sensitivity approach</p> <p>Further to the point raised on the scenario and sensitivity approach outlined on page 21, the Authority confirmed that the modelling approach assumes that service adjustment decisions are taken in sufficient time to allow the necessary changes to be made in an efficient way.</p> <p>It is acknowledged that such simplifications in approach are inherent in modelling forecasting, and the Authority has undertaken work and preparations to mitigate the impact of changes in service provision. The Authority could seek to explain the activities it has performed as part of this process along with further specific detail on how services would be adjusted in the circumstances analysed.</p>	<p>The Authority has provided details of the activities it has undertaken to manage the process and impact of adjusting service provisions under Franchising in the event of factors changing (modelled as part of the scenario and sensitivity analysis). In order to strengthen this area of the Assessment, the Authority could include further reference to this work in the Financial Case.</p>	10, 11 (Financial Case)	1.62

Key observations

Process - Suggested improvements - Financial Case (2/2)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
3	<p>Explanation of alternative scenarios</p> <p>The way in which Table 4-7 of the Financial Case sets out the alternative funding and demand scenarios which have been undertaken in the Economic Case and Financial Case modelling could be improved to make it clearer for the reader.</p> <p>Table 4-7 originally stated that both "3. Demand - Upside" and "4. Demand - Downside" scenario have been tested; however, it was not clear how these differed from "5. Base Funding with Demand Upside" and "7. Base Funding with Demand Downside", respectively.</p>	<p>The Authority advised that it would take the following update actions to the Assessment (but making no further update to the conclusions):</p> <ul style="list-style-type: none"> Adjust Scenario 5 of the Table such that it instead reads as "Funding Scenarios with Demand Upside" with the description 'this scenario is a combined scenario taking both elements of the Upside and Downside Funding scenario explained in paragraph 9 and the Demand Upside scenario above'. Adjust Scenario 7 of the Table such that it instead reads as 'Funding Scenarios with Demand Downside' and the description 'this scenario is a combined scenario taking both elements of the upside and downside funding scenario explained in paragraph 9 and the demand downside scenario above'. Remove the current Scenario 6 can be removed as this would then be duplicated. In total this would give 8 funding and demand scenarios (over 6 rows) with the combined funding and demand scenarios combined into the same table lines. 	Table 4-7 (Financial Case)	1.62

Key observations

Process - Suggested improvements - Management Case (1/3)

Management Case - Suggested improvements

In carrying out our review of the Assessment, we also identified a number of areas where the Assessment could potentially be improved and the case strengthened.

The table below provides a summary of these proposed improvements in the Management Case.

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
1	<p>Recruitment strategy for additional staff requirements The recruitment strategy for additional staff required under each option should be included in the Assessment.</p> <p>Paragraph 3.56 states that <i>“the Authority would develop a recruitment strategy”</i>, implying that this has not been done for the Franchising Option.</p> <p>Similarly, for the other options (Reference Case and Future Partnership), the Assessment does not set out how the Authority will recruit the additional personnel required.</p>	<p>Discussions with WMCA have demonstrated that the Authority clearly recognises the need for additional capacity and capability and will need to consider how it will bring in required commercial experience to manage new responsibilities under franchising</p> <p>WMCA has updated the Assessment to state that, across all three options, the Authority would follow its established recruitment strategy. The strategy will be developed into a detailed recruitment plan, but that will only be able to occur once relevant information is received from operators following the franchising decision.</p>	Para 2.24, 3.39, 3.56 & 3.57	1.71 ¹
2	<p>Inclusion of organisational team structure diagrams for all options Appendix 4 of the Assessment sets out the team structure under the Franchising Option which supports the explanation in the main body of the text, however no team structure has been provided for the Reference Case and Future Partnership options. To supplement the description of the team structure for these options, it would be helpful to the reader (and for completeness) if this is illustrated in a structure chart, similar to Appendix 4.</p>	<p>WMCA has updated the Assessment to include both the current organisational structure under the Reference Case in addition to the additional roles included under the Future Partnership.</p>	Appendix 4	1.71 ¹

Guidance extracts:

¹ “Authorities should ensure they have considered for each option ▶ the programme management structure that they will employ, including whether additional specialist staff or advice will be required. If additional staff are required this should include the numbers of staff and recruitment strategy.”

Key observations

Process - Suggested improvements - Management Case (2/3)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
3	<p>Adjust layout of additional competencies required under the Future Partnership and Reference Case options</p> <p>The Authority has included tables for additional competencies required under the Reference Case and Future Partnership options. Suggested splitting the 'Extent of Additional Capacity or Competency Required' column into two separate columns - the first of which could detail the rationale for needing additional capacity or competency, while the second column would simply indicate whether those competencies are fully / partially in place, in development etc.</p>	WMCA has updated the Assessment to make the suggested updates to Tables 5-6 and 5-7.	Tables 5-6, 5-7	n/a
4	<p>Completeness of key risks under Future Partnership option</p> <p>Suggested that the key risks associated with establishing and implementing TiCo, a key feature of the Future Partnership, are captured in the format required in Table 5-18.</p>	WMCA has updated Table 5-18 in the Assessment to reflect the key risk associated with establishing and implementing a TiCo under the Future Partnership.	Table 5-18	1.69 ¹ 1.70 ²
5	<p>Additional detail of the Authority's ability to successfully deliver large-scale projects</p> <p>To evidence the Authority's ability to successfully manage and deliver major projects, the Authority has included a table which provides an overview of recent large-scale programmes and projects that the Authority has delivered or is in the process of delivering. Suggested that an additional column be included indicating whether these historic projects were completed within the allocated timeframes and budgets.</p>	WMCA has updated the Assessment to include an additional column to explain whether each project was completed on time and to budget.	Table 5-5	n/a

Guidance extracts:

¹ "Authorities should consider how it would successfully deliver and manage the options, and to set out the arrangements it plans to put in place to manage and mitigate risk in relation to each option"

² "Authorities should set out how it intends to manage the transition process from the current system to the introduction of any of the proposed options. This is likely to require most thought with respect to the franchising proposition, and the Authority should ensure they clearly set out any contingency plans for providing replacement services should operators stop running their services before the introduction of the franchising scheme and any other plans they may have put in place to manage those risks"

Key observations

Process - Suggested improvements - Management Case (3/3)

Process				
#	Proposed improvement	Outcome	Case ref	Guidance ref
6	<p>Inconsistency between sections for additional roles required under the Reference Case</p> <p>Para 2.19 sets out that the Authority already has the skills and functions to carry out and deliver the services under the Reference Case, however this contradicts with Table 5-8 where it sets out the additional resources required. Suggested that Para 2.19 be amended to reflect additional roles required.</p>	WMCA has updated the Assessment so that the two sections are aligned.	Para 2.19, Table 5-8	n/a
7	<p>Inconsistency between section diagrams and prose across various cases</p> <p>Figure 5-2 sets out the proposed implementation plan for the Franchising Option; however, the specific dates and timelines do not align with those found in the Financial Case. Suggested reconfirming which timeline is correct and updating the Assessment to ensure there is consistency between cases and diagrams.</p>	WMCA has updated the Assessment with the correct timelines.	Figure 5 -2	n/a

5

Other points for consideration



Other points for consideration

Key aspects for WMCA to consider as they progress through the franchising process

Other points for consideration

Developments in Bus Reform and Department for Transport Franchising Guidance

The Bus Reform landscape continues to evolve, as demonstrated by the Department for Transport's recent updates to Bus Services Act 2017 and its accompanying guidance, which aims to simplify and streamline the process, including the provision of further flexibility for Local Transport Authorities. This can be expected to be an ongoing process as the new UK government has shown a clear appetite for Bus Reform and a willingness to consult with the stakeholder - for example, we know that all the guidance updates proposed by the Urban Transport Group have been accepted by the DfT. WMCA therefore has the opportunity to lobby government and shape further development. We note, however, that any legislative change will not be immediate and, whilst it may present some opportunities, the main area for reform is expected to be related to the process around undertaking the Assessment, on which WMCA is nearing completion.

Readiness of commercial proposition

WMCA has developed the franchising proposition to the extent that is required for this Assessment, but recognises that, if it is approved as the preferred option, the Franchising Option will need to be taken to the next level of detail. Considerable work will be required in order to be ready to run a successful procurement exercise, and WMCA should be prepared to rigorously test and critically evaluate the key commercial decisions that have been taken in the Assessment to ensure confidence both within the Authority and the market. Stakeholders' expectations around procurement timings may need to be carefully managed.

Other franchising schemes

WMCA should start to consider how its process dovetails with that of other franchising schemes nationwide. The wider bus market and the timing of franchising competitions will have an impact on bidder capacity and appetite, ultimately impacting levels of competition, in particular for new market entrants and those operators without a presence in or near the region.

Importance of securing strong competition for the franchising procurements

Operators' margin is a key driver of the economic analysis, with the lower margin assumed in Franchising releasing more money to run services. The actual margin priced into the contracts will be a result of the competitive process of procuring the franchise lots, so it will be important to achieve strong competition in the franchise procurement process to maximise the forecast benefits of franchising. However, WMCA should be aware that economic conditions remain challenging and bus operating costs continue to rise, and this may impact operators' willingness to bid and/or their pricing. National Express's current dominance in the region will mean that WMCA will need to clearly explain to the wider market how it will provide a level playing field through factors such as its depot and fleet strategy.

Organisational structure, governance and systems

The Assessment details the anticipated franchising organisational structure and associated costs, but also recognises that it is a work in progress and will require further development as the process moves forward. A move to franchising would represent a step-change in management requirements and responsibility and, in developing these structures, WMCA will need to ensure they can effectively manage the decisions that will be made post mayoral decision. It will also be important that the necessary systems to manage and monitor franchising are put in place.

6 Conclusions



Conclusions

Our review findings and next steps

Conclusions

Our review of the draft Assessment identified a number of observations relating to the data sources used, the analysis performed with that data and the process followed in its preparation. These are listed by exception in this report. In most instances, the Authority has addressed our observations by updating the Assessment.

None of the issues identified were considered to be sufficiently material to affect our opinion of the Assessment.

Next steps

WMCA will now consult on its proposals to allow local passengers, businesses and transport providers to comment on the proposals before the Authority takes the decision as to whether to implement the franchising scheme.

WMCA has developed the franchising proposition to the extent that is required for this Assessment. From our discussions, it is clear that the Authority also recognises that, if it is approved as the preferred option, the Franchising option will need to be taken to the next level of detail.

Considerable work will be required in order to be ready to run a successful procurement exercise, and WMCA should be prepared to rigorously test and critically evaluate the key commercial decisions that have been taken in the Assessment to ensure confidence both within the Authority and the market.

It will be important to achieve strong competition in the franchise procurement process to maximise the forecast benefits of franchising. Economic conditions remain challenging and bus operating costs are continuing to rise. This may impact operators' willingness to bid and/or their pricing.

Key elements such as the franchising organisational structure and associated costs will also require further development as the process moves forward.

WMCA made clear in our discussions with them that they were aware of these issues and will continue to address them as the process continues.

7 Appendices



Appendix A

Our scope of work

The Guidance

The Guidance issued by the DfT pursuant to Section 123B(5) of the Transport Act 2000, requires the independent assurance report to express an opinion on:

- ▶ Whether information relied upon in assessing affordability (123B(3)(d)) and value for money (123B(3)(e)) is of sufficient quality;
- ▶ Whether the analysis of that information in the Assessment is of sufficient quality; and
- ▶ Whether the Authority has had due regard to guidance issued under section 123B of the Act in preparing the Assessment.

Our role

As stated in the Guidance at paragraph 1.87, our role is not to report or pass judgement on the decisions taken by the Authority or the outcomes of the Assessment, but rather it is purely 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.

In forming our opinion, we have taken into account the quality and timeliness of any information received from bus operators and the following criteria:

- ▶ whether the information used comes from recognised sources;
- ▶ whether the information used is comprehensive or selectively supports the arguments in favour, or against, any particular option;
- ▶ whether the information used is relevant and up to date;
- ▶ whether the assumptions recorded as part of the Assessment are supported by recognised sources; and
- ▶ the mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options.

Paragraph 1.86 of the Guidance requires us to advise the Authority accordingly should we consider that one or more of these criteria have not been satisfied.

Our Opinion

Our review did not identify any material findings. Our formal opinion is given in our audit opinion letter, dated 19 November 2024.

Appendix B

There are inherent limitations to the scope required under the Guidance

Inherent limitations

Our evaluation of the Assessment required under the Guidance does not constitute a statutory audit under the Local Audit and Accountability Act 2014 nor was our evaluation of the Assessment conducted in accordance with auditing standards issued by the Financial Reporting Council.

In carrying out our work, we have relied upon the information provided by and the assumptions made and described by WMCA and have not considered the impact of potential future changes in the UK bus market on WMCA's Assessment.

We have conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), "Assurance engagements other than audits and reviews of historical financial information". In applying ISAE 3000 (Revised) to this engagement, we are required to conclude whether the Assessment has been prepared, in all material respects, in accordance with the requirements of 123D of the Act.

Our review of the models did not constitute a model audit. We were not required to detect, or record in our Report, errors and inconsistencies that we consider to be immaterial in the context of the Model's objective. Our commercial review of model scope excluded providing advice on what should be modelled or instruction on how to model specific phenomena. We did not comment upon the possibility of the financial projections being achieved or review any other input configurations other than the base case (the input configuration in which the Models were provided to us). We did not review comments included in cell notes embedded in the Models, to ensure that they are consistent with the Model, nor did we review any taxes in relation to the Models. We were not responsible for ensuring that the information and explanations received in providing such other services are appropriately reflected in the Models or our interpretation of the Model.

The process of modelling on which the Assessment is based necessarily involves a simplified representation of the real-world, using a set of base case data and input assumptions and calculations to provide a forecast financial position. 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.

This Report was prepared based on the work performed from 6 September 2024 to 19 November 2024. It does not take into account events or circumstances arising after 19 November 2024 and we have no responsibility to update this presentation for such events or circumstances.

WMCA should note that this Report or any product of our services does not constitute recommendations to WMCA as to whether or not it should proceed with any particular course of action.

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