

LCRCA BUS SERVICE DELIVERY

OPERATOR MARKET ENGAGEMENT SUPPORTING PAPER

31 AUGUST 2022



**LIVERPOOL
CITY REGION**
COMBINED AUTHORITY

METROMAYOR
LIVERPOOL CITY REGION

1. Introduction and Purpose

- 1.1. This report sets out a summary of the responses received and the conclusions made in relation to the market engagement process undertaken by the LCRCA between August and October 2021.
- 1.2. The report consists of two sections:
 - Market Engagement – this section provides an overview of the market engagement exercise that was undertaken by the LCRCA regarding the commercial proposition for bus franchising, together with a list of the operators that responded to the questionnaire and that were invited to participate in the exercise; and
 - Detailed responses from operators – this section sets out the franchising proposition that was shared with operators, the operators' responses and the LCRCA's conclusions following the engagement exercise.

2. Market Engagement

- 2.1. The LCRCA conducted a market engagement exercise between August and October 2021 to provide current and prospective operators with information about the LCRCA's commercial proposition for bus franchising and to seek input from interested parties to inform the LCRCA's understanding of the capabilities of the market.
- 2.2. The objectives of the market engagement exercise were to:
 - seek evidence to inform the assessment for franchising and to allow the LCRCA to critically assess the viability and suitability of the commercial proposition;
 - gain insight to the market's capabilities and preferences and to identify the level of market interest;
 - understand the associated risks and issues;
 - identify opportunities to refine the commercial proposition, considering the best outcomes for passengers, operators and the LCRCA; and
 - raise operator awareness of the commercial proposition and the potential effect on their businesses.
- 2.3. An Information Memorandum was sent to bus operators within the LCR and respondents to the Periodic Indicative Notice (PIN) for "Liverpool City Region Bus Franchising: Market Sounding". The Information Memorandum included a questionnaire.

- 2.4. Large operators who responded to the questionnaire were invited to attend individual meetings with the LCRCA and smaller operators who responded or were incumbent operators in the LCR were invited to attend a group meeting. The purpose of these meetings was to engage with operators to obtain further detail and reasons for the respondents' positions in respect of the responses received to the market engagement questionnaire.
- 2.5. It is important to note that not every comment received is considered or referred to within this report. This is because there was both a large volume and a mix of comments received in both support of and disagreement to the various proposals. The LCRCA has considered the comments received through this engagement appropriately and consistently.

Operators Engaged

- 2.6. Table 1 below lists the operators that responded to the questionnaire and/or attended a meeting with the LCRCA.

Table 1

Respondent	Responded to IM questionnaire	Attended meeting with the LCRCA
Arriva	X	X
Stagecoach	X	X
Abellio	X	X
National Express	X	X
Keolis	X	X
Go-Ahead	X	X
Metroline	X	X
Warrington's Own Bus	X	X
A2B		X
Al's coaches		X
Maghull Coaches		X
Cumfybus		X
Selwyns		X
Rock Road	X	

3. Detailed Written and/or Verbal Responses from Respondents on LCRCA's Commercial Proposition

3.1. The proposition shared with the respondents is as set out below. The responses considered below seek to summarise the key themes and relevant comments received in terms of challenge, contradiction and clarity of response. However, comments that are tangential to the proposals, have not been considered further in this paper.

4. Franchise package size

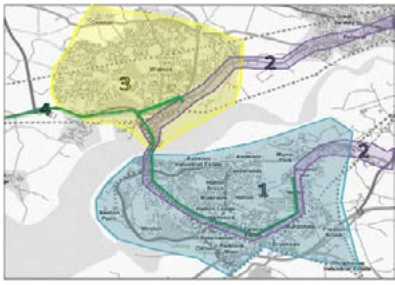

Proposition shared in the Information Memorandum



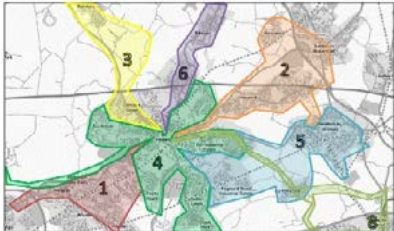

4.1. The LCRCA's current proposal regarding package size is to divide the LCR bus network into 6 areas, referred to as "Rounds" (or "sub-area" for the purposes of the franchising scheme). The Rounds will vary in size, from 59 Peak Value Requirement (PVR) (for Halton) up to 299 PVR (for Knowsley North and Liverpool North).

4.2. The LCRCA proposes that routes are then grouped together as "Lots" within each Round, with each Lot being the subject of a franchise contract.

4.3. A breakdown of the proposed Rounds and Lots and package sizes is set out below:

Table 2

Round	Lots and required PVR	Geographical area
Halton	PVR of Lots: 15; 30; 6; and 8. (59 PVR Total)	
Knowsley North & Liverpool North	PVR of Lots: 16; 24; 46; 51; 41; 14; 68; 8; 4; 12; 8; and 7. (299 PVR Total)	

Round	Lots and required PVR	Geographical area
Knowsley South & Liverpool South	PVR of Lots: 53; 89; 9; 16 and 12. (179 PVR Total)	
Sefton	PVR of Lots: 27; 31; 3; 51; 9; and 10. (131 PVR Total)	
St Helens	PVR of Lots: 45; 17; 8; 56; 16; 11; 9; and 6. (168 PVR Total)	
Wirral	PVR of Lots: 51; 33; 9; 5; 27 and 10. (135 PVR Total)	

4.4. Franchise contracts would consist of either an individual Lot, procured on a stand-alone basis, or groups of Lots procured together as a single contract where it is beneficial to do so, e.g., to provide economies of scale.

Table 3

Questions to respondents	Responses	Conclusion
<p>“Please set out the benefits and limitations of the franchise package sizes and related geographies proposed from the perspective of your organisation.”</p>	<p>Broadly, the larger respondent operators who responded expressed a need for groups of Lots to be packaged together, aligned with a depot. The majority of respondent operators indicated that larger packages would be more attractive and would make the proposals more commercially viable. Several of the larger respondent operators also commented that aggregated packages would attract new entrants to the market (by affording greater economies of scale and certainty) but that the opportunity to let smaller Lots would probably encourage SME to participate. One respondent operator noted that the letting of the Rounds should be sequenced by geography so that bordering Rounds are tendered in sequence, and that operators should be notified of the sequence to allow them to strategise and plan properly.</p> <p>An operator noted that an award of a Lot with a minimum of 50 PVR from a single garage location would likely be expected by a new entrant with a regional parent which provides head office/administrative functions. The same operator noted that on the other hand, if a brand new subsidiary and head office needed to be established, a minimum of 100 PVR would probably be required for viability and to reduce the risk of investing in the bid process. This operator also commented that groups of Lots (or even whole Rounds) could be linked to particular depots and that the location of depots should be near sufficiently sized groups of Lots (or whole Rounds).</p>	<p>The responses received indicate that the larger operators generally require Lots in excess of 50 PVR in order to consider bidding for a Lot and that the preference is for Lots sized in excess of 80 PVR.</p> <p>However, the larger operator respondents agreed that once the PVR of a depot became too large operational issues were likely to arise. There was no consensus between the larger operators regarding when a depot was too big and ranges were provided between 100 – 200 PVR.</p> <p>The responses also indicate that operators would prefer Lots to be aligned to a depot. The responses received from smaller operators confirm that there is a need for</p>

Questions to respondents	Responses	Conclusion
	<p>Another operator noted that if different operators win a mix of Lots that run out of one depot, then franchise costs may be higher as a result.</p> <p>An operator suggested that ‘centre of gravity’ tests should be run on each depot to avoid dead mileage; their opinion was that certain of the current depots are too close to the city centre. If the LCRCA re-designing the network, LCRCA would have the opportunity to make the centres of gravity fit the objectives. This respondent considered that a Lot size of 150-200 PVR was required to support a bid.</p> <p>A respondent noted that typically, as an industry, operators tend not to operate bus depots for fleets of fewer 45PVR, as these depots struggle to support the overheads – their view was that the optimum size for a depot was around 80 PVR. This respondent considered that depots in excess of 200 PVR became harder to manage.</p> <p>A smaller operator considered that the package sizes were suitable for SMEs to bid. This operator proposed maintaining a repeating tendering pattern, with no packaging for Lots.</p> <p>Another smaller operator queried whether the LCRCA would consider either sub-contracting or bids from consortia, noting that a lot of SMEs would like the opportunity to be involved with franchising contracts, but need to manage their risks. A consortium would allow a SME operator to be involved in a number of bids.</p>	<p>smaller Lots that are viable for SMEs and that should not be included within packaging for larger Lots.</p>

Questions to respondents	Responses	Conclusion
	<p>Another smaller operator also noted that small operators would not want all of their eggs in one basket, so they would not want to tender for just one contract as if the operator lost the retender, they would have no business. Smaller operators would want to spread the risk by tendering for more contracts with fewer buses, rather than one medium sized contract.</p>	

Table 4

Questions to respondents	Responses	Conclusion
<p><i>“Do you have any views on the frequency in which Lots are tendered (for example, if all Lots within a Round were tendered concurrently)?”</i></p>	<p>Several larger respondent operators noted that lotting on a whole-depot basis would be necessary for larger operators in order to secure value for money and maximise competition, and that letting all Lots within a Round concurrently would reducing tendering costs for bidders and the LCRCAs. Several larger respondent operators were of the view that letting on a Round-by-Round basis would allow some operators to offer discounts for bidding on several Lots together. Several larger respondent operators also noted that the tender process should be staggered to create a rolling pipeline for prospective operators.</p> <p>Conversely, a smaller respondent operator commented that it would prefer the schedule to be broken down on a Lot-by-Lot basis to allow for mobilisation, an approach which is said to favour bus manufacturers.</p> <p>One respondent operator suggested an alternative option of tendering larger Lots or Rounds in halves at different times, with each half having a critical mass of services. The advantages cited for this approach were that operators could have an additional opportunity to retain the business and to take a longer-term strategic view regarding future bids, as well as increasing the number of tenders an operator could bid for; rather than creating a “cliff-edge” approach where if an incumbent operator failed to win the services it lost its entire business.</p> <p>One respondent noted that whether a depot is commercially viable depends upon how the different Lots are packaged and suggested that all Lots within a similar area should be procured at the same time.</p>	<p>The majority of larger operators preferred lotting on a whole-depot basis, with all Lots for a Round being let at the same time.</p> <p>The smaller operator respondents preferred each Lot to be tendered separately to provide capacity for mobilisation.</p>

5. Franchise package phasing

Proposition shared in the Information Memorandum

- 5.1. The LCRCA aims to minimise the transition period (from commercial / deregulated services to franchised services) to reduce the risk of inconsistencies in service across the region.
- 5.2. The LCRCA's proposed approach to phasing is to franchise all routes over a 3 year period, with each of the six proposed Rounds let at 6-monthly intervals.
- 5.3. The LCRCA is open to suggestions in relation to the order in which the Rounds are tendered.
- 5.4. The LCRCA proposed that that initial franchise contracts may be of term less than the target of 5 years in order to provide for a regular and consistent level of procurement activity for the LCRCA and the bus market. Once franchising is under way and in the steady state, the proposition is that one or two Rounds are re-let annually.
- 5.5. The LCRCA noted that franchising would require the Bus Alliance between Merseytravel, Stagecoach and Arriva to disband but that there will be engagement with those parties to ensure that the transition is efficient and mutually beneficial.

Table 5

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed phasing strategy to be appropriate?”</i></p>	<p>A larger respondent operator commented that it believed that it would be more beneficial for both LCRCA and bidders to conduct procurement of the six Rounds by letting two Rounds concurrently at 12-monthly intervals. The reasons cited for this were: reduction in bid costs for operators and procurement costs for the LCRCA, greater opportunities for economies of scale, simplification and reduction of “optioneering” of several potential outcomes if the number of Rounds and Lots are increased and protection for SMEs in relation to individual Lots.</p> <p>Another larger respondent operator stated that the phasing process could be sped up if the Lots were packaged up appropriately (which would be further beneficial in reducing passenger confusion between commercial and franchised services).</p> <p>Four respondents noted that the phasing strategy proposed was reasonable / suitable. One of those operators noted that this was provided that sufficient time was allowed between completion of one procurement exercise and the start of the next to allow teams to receive feedback and refine their strategy in the light of the results of the previous Round.</p> <p>A smaller respondent operator commented that it may bid for initial contracts with shorter or longer terms than that proposed by the LCRCA but provided that this does not expose the operator to additional cost risk.</p>	<p>In general, the respondents considered that the phasing strategy proposed was reasonable, although some respondents expressed concerns around the operation of deregulated services during transition.</p>

Questions to respondents	Responses	Conclusion
	<p>Another respondent operator also commented on the transition period by noting potential difficulties during this period with some depots operating at significantly less than capacity, because they may lose routes in a tendered Lot package.</p> <p>A respondent operator also noted that running franchised services alongside deregulated services for more than a few days could cause confusion and lead to abstraction, making the franchise offering less attractive.</p> <p>Another respondent considered that the strategy was attractive to them as a new entrant to the market as there were a number of entry points.</p>	

Table 6

Questions to respondents	Responses	Conclusion
<p><i>“Do you have any views on the order in which Rounds should be tendered / the potential sequencing of franchise packages? If so, please provide these together with your underlying rationale.”</i></p>	<p>A larger respondent operator’s view was that the larger Rounds or ‘sub-areas’ should be let first, with the smaller Rounds / sub-areas being let last, in order for the largest benefits to be demonstrated at the earliest opportunity (which, in the operator’s view, will be important from a political and passenger perception perspective). Specifically, this operator commented that the Knowsley North and Liverpool North sub-area and the Knowsley South and Liverpool South Rounds should be tendered in the first year on a concurrent basis. This operator noted that the second phase should be the Sefton and St Helens Rounds (let concurrently again).</p> <p>A smaller respondent operator had an opposing view and commented that Lots with lower passenger numbers or service levels should be let first in order to mitigate any operational issues and to allow those issues to be ironed out before being rolled out into busier Lots. Another larger respondent also had the view that smaller Rounds should be let firstly to allow sharing of experiences and lessons before rolling out across the larger Rounds.</p> <p>A large operator noted that the order of tendering of the Rounds should be determined by geography, i.e., physically adjacent Rounds should be let concurrently/in sequence.</p> <p>Another operator commented that it might be sensible to begin with the Lots which are discrete/closed off (i.e., those which have the least geographic overlap with other Lots or routes which cross the</p>	<p>There was no consensus between the respondents regarding the order in which Rounds should be tendered and the subsequent sequencing, with approximately half of the respondents favouring the tender of discrete smaller Rounds initially because these Rounds are likely to be easier to implement and the other favouring the tender of the larger Rounds incorporating Liverpool City Centre to deliver the most benefit initially.</p>

Questions to respondents	Responses	Conclusion
	<p>LCRCA boundary). This operator also was of the view that availability of land, depots, vehicles, people and systems should be factored into this decision. Another larger respondent also shared the view that self-contained Lots should be let first, for example Wirral, but the rationale expressed by this operator was that mixing deregulated and franchised routes should be avoided.</p> <p>Another larger operator suggested that Knowsley and Liverpool South are let in the initial phase, with the Wirral after this and Liverpool North let in the later phases. The rationale expressed was that the city centre would benefit as soon as possible and that incumbent operators would benefit from the workload and risk being spread.</p> <p>An operator commented that the Halton Lots should be tendered as one single Round (since individually the Halton Lots are too small and unviable).</p> <p>One operator suggested that LCRCA should offer the larger scale depots/ rounds first to achieve a 'wow' factor from day 1 and to start to see the benefits it wants to achieve earlier rather than later.</p> <p>A large respondent suggested that smaller less complex rounds should be let first as a quasi-pilot and that bidders can receive detailed feedback and adapt their bids. However, this respondent also noted that the Lots still needed to be of sufficient size to be attractive to the market.</p>	

Table 7

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed re-tendering strategy to be appropriate? Does your organisation consider that this approach will maintain an active bus market within the LCR?”</i></p>	<p>A larger respondent operator’s view was that the proposal is not appropriate and that re-letting two Rounds annually would be inefficient since bid teams would need to be deployed for twice as long under this proposal. This operator’s preference was to re-let on a whole depot basis to drive genuine competition amongst operators and encourage new entrants into the market and to mitigate TUPE issues.</p> <p>Another operator was of the view that the proposed re-tendering strategy would not promote competition, consistency in service delivery or improved customer satisfaction because the proposal is more attractive to incumbent operators and smaller operators. Accordingly, this operator’s view was that the proposal would mean the status quo would broadly remain the same in terms of the operators providing the services in the LCR. Another larger respondent operator was not of the view that the proposal would necessarily promote competition due to the market continually shifting if one or two Rounds are re-let annually.</p> <p>A smaller respondent noted that the proposed re-tendering strategy was appropriate on the face of it but that the detail would need to be known before this could be confirmed.</p> <p>Another operator commented that a regular programme of tender opportunities would help ensure operator engagement and participation over the long term but did not comment on whether the precise details of the re-tendering strategy proposal was appropriate or not.</p>	<p>The majority of respondents agreed that re-tendering should be on a rolling basis, rather than all franchise contracts being let at the same time.</p>

Questions to respondents	Responses	Conclusion
	<p>Another operator noted that the franchise contracts should be re-tendered every 7 years and was concerned by the proposition of the initial contracts being of less than 5 years in length (since this is not commercially attractive and it likely to reduce likelihood of investment).</p> <p>A large operator responded that the strategy, if adapted for feedback, should give a workable tendering strategy, but that engendering an active market of participants would be dependent upon a number of factors including: balance of contract size and number, neutralising incumbency advantage, the correct balance of risk and opportunity, appropriate cost of bidding, access to a wider bus franchising market across the North of England and the LCRCA investing in the product.</p> <p>Another large operator considered the approach similar to the successful London tendering strategy and noted that operators will continue to bid, even if unsuccessful, provided that the risks and rewards are favourable and bid costs are not excessive.</p>	

Table 8

Questions to respondents	Responses	Conclusion
<p><i>“Do you agree that the availability of fleet and depots are the main barriers to entry, and do you consider there to be any others?”</i></p>	<p>A larger respondent operator noted that the issue is actually the ability to obtain rights to access and at the end of the franchise contract to exit from arrangements granting access to depots rather than availability of the depots. Additionally, this operator noted that Intelligent Transport Systems (ITS) and human resources need to be considered and that time needs to be built into the programme to ensure TUPE obligations have been fulfilled, buses have been procured and depot location, land consents and green infrastructure has been secured and put in place in advance of the contract start date.</p> <p>Another larger operator agreed that availability of fleet and depots were the main barrier but added that human resources would also be a factor in relation to rates of pay of bus drivers being consistent across operators. Another larger operator also agreed that these were the main barriers and added that knowledge of the local labour market, access to (and understanding of) existing systems and ability to implement initiatives faster are also barriers to entry.</p> <p>A large operator agreed that availability of fleet and depot were the main barriers for entry, noting that longer mobilisation periods would be required if fleet and depot were not made available to new entrants. This operator also noted that incumbents could have a perceived advantage through use of existing fleet and/ or depots. The same respondent commented that setting up charging infrastructure and power upgrades can</p>	<p>The majority of respondents agreed that access to fleet and depots were the main barriers to entry. A number of respondents also agreed that access to/ knowledge of the local labour market was a barrier to entry.</p>

Questions to respondents	Responses	Conclusion
	<p>lead to delays in implementation (but did not expressly state that this is a barrier to entry). This operator did note that availability of fleet is not a significant barrier for it (depending on vehicle specifications and lead-times from contract award to contract start date).</p> <p>A smaller operator commented that buses and depots should be provided by the LCRCA in order to minimise barriers to entry (and demonstrate best value). This operator did not suggest that any other potential barriers to entry exist.</p> <p>Another respondent operator commented that the main barrier is the establishment of an operating centre (which should be provided by the LCRCA in order to attract new entrants). This operator also noted that availability of fleet is less of a barrier since buses can be purchased or transferred from other UK operators (the operator currently runs services in the UK).</p> <p>Another larger respondent operator agreed that availability to fleet and depots was a barrier but added that provision of charging infrastructure would also be a barrier. This operator also noted that the size of the Lots themselves and potential instability (due to the lotting strategy) might a potential barrier.</p> <p>Another larger respondent operator noted that it did not believe that either availability of fleet or depots are a significant barrier to entry but did not comment on what it did consider to be a barrier.</p> <p>A larger operator indicated that it would take it approximately 12 months to procure fleet in excess of 100 vehicles.</p>	

Table 9

Questions to respondents	Responses	Conclusion
<p><i>“Do you have any views on the minimum length of time required to mobilise post-contract award?”</i></p>	<p>A larger respondent operator commented that this would depend on access to and exit from depots being made available. This operator noted that if depots were made available, the minimum length of time required to mobilise post-contract award is likely to be 9 months for conventional buses (diesel or diesel-electric hybrid) and 9 - 12 for zero emission buses provided that the methodology of providing energy to fuel buses is understood and arrangements are firmly in place to deliver. This operator stated that if depots were not made available, new entrants would need to take a view on whether the proposition would be viable, given the options presented in this scenario.</p> <p>Another larger respondent operator provided a mobilisation time of 6 – 12 months, depending on the size of the Lots awarded and local labour arrangements.</p> <p>Another larger operator suggested a mobilisation time of 6 – 9 months would be reasonable, depending on contract structure, access to assets etc.</p> <p>Another operator commented that 9 months would be appropriate to mobilise, but that this period could be reduced if fleet and depots were provided by the LCRCA and employees transfer to the new operators under TUPE. This operator further noted that if the offer of brand new vehicles is included within an operator’s bid, then more than 9 months may be required to mobilise but that such new vehicles could be deployed post-contract start date.</p>	<p>The respondents agreed that where the operators are required to provide access to new ZEB and charging infrastructure, the mobilisation period required would likely be between 9-12 months. Where the operator was required to provide a new depot, the mobilisation period required would be in excess of 12 months and would be more likely to be 24 months.</p> <p>The respondents confirmed that a shorter mobilisation period would be required if the LCRCA provided access to fleet and depots.</p>

Questions to respondents	Responses	Conclusion
	<p>Another operator commented that mobilisation time would depend on: the provision of vehicles (which could take 9 – 12 months); the provision of depots (which could take up to 24 months if the operator is required to procure and if charging infrastructure is needed to be built within those depots by the operator); and the availability of employees (which could take up to 6 months if employees do not TUPE transfer).</p> <p>Another larger respondent operator suggested a mobilisation period of 6 – 9 months depending on a range of factors, including: TUPE transfer of employees; fleet/asset transfer and what this would look like; ITS and what the LCRCA would set as a requirement; and vehicle branding/ livery and whether changes will need to be made to vehicles on the service commencement.</p> <p>Another larger respondent operator noted a mobilisation period of at least 12 months would be necessary (particularly where zero emissions buses are required). This operator also noted that the mobilisation time for larger Lots would need to be longer due to the significant capital investment and operational planning that will be required.</p> <p>A smaller respondent noted a mobilisation time of 6 – 9 months would be reasonable, provided that the LCRCA provided the depots and fleet but commented that longer lead times would be required for the initial Lots.</p>	

6. Franchise package length (including extension periods)

Proposition shared in the Information Memorandum

- 6.1. The LCRCA proposed a fixed 5 year contract term for all Lots, other than:
 - some initial Lots where shorter contracts will be offered to regulate the flow of contracts coming to the market after the initial period of franchising is completed; and
 - certain contracts which contain school services, which may require contracts shorter than a 5 year fixed term and which will be agreed on a contract by contract basis.
- 6.2. The LCRCA is also considering options for extension, which may include rights to extend for LCRCA discretion, force majeure and/or for operator performance.

Table 10

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the Authority’s proposal on franchise package length to be appropriate and/or attractive to your organisation?”</i></p>	<p>A large respondent operator commented that the proposals would appear to be acceptable and would create competition (depending on the capital expenditure required). However, this operator noted that 5 years may not be long enough as by year 3, uncertainties for the LCRCA, the operators and employees would arise. This operator suggested that performance-based extensions should be considered.</p> <p>Another operator commented that a 5 year contract term was acceptable, provided there was a clear and repeatable pipeline of opportunities and the tender submission requirements (e.g., bid plans, models, etc.) are scaled to be commensurate. An option to extend by up to 2 years would be preferable to justify bid costs. This operator also noted that a term length of less than 5 years is not likely to encourage new entrants to bid for the contract.</p> <p>Another operator commented that a contract term of 5 years was appropriate if a low level of investment was required by the operator. This operator further noted that a 7 year term would be appropriate in supporting the infrastructure needed for zero emissions buses. This operator also noted that the LCRCA should consider allowing operators to retain their depots during re-tendering (which is what TfL do).</p> <p>A larger respondent operator’s view was that a minimum contract term of 5 years with an option to extend by 2 or 3 years would be reasonable and that a contract length of less than 5 years would likely attract SMEs (rather than larger operators). This operator also noted that</p>	<p>The majority of respondents, regardless of size, agreed that the franchise contract term should not be less than 5 years and where investment was required the respondents indicated that the contract term should be in excess of 5 years. Some of the larger respondents indicated that a contract length of less than 5 years was unlikely to be attractive to them.</p>

Questions to respondents	Responses	Conclusion
	<p>current zero emissions bus manufacturers are offering 8 year warranties in respect of the buses, and so the operator noted that there may be logic in aligning the contract term length with the warranty length. This operator noted that a term of less than 5 years would be undesirable for any significant Lot and may reduce competition.</p> <p>Another operator noted that a contract term longer than 5 years would be preferred but that a minimum 5 year term would be considered if the LCRCA provides the depots and fleet and bears all revenue risk. This operator commented that a contract term of 7+ years would promote lower prices to be bid by allowing an operator a longer period of time over which to depreciate its cost, reduce risk and encourage new entrants. This operator noted that contracts lengths of less than 5 years were likely to pose operators concerns and potentially drive up costs.</p> <p>Another larger respondent operator noted that a 5 year term with the option for extension was acceptable and that larger volumes would be needed to attract larger operators to bid.</p> <p>Another larger respondent operator commented that contracts should be a minimum of 5 years to be suitable and that initial contracts of less than 5 years would not be attractive. The same respondent noted that if the contract was for a term of 5 years and the operator was required to provide fleet, it would be most likely to lease vehicles; whereas if the contract term was 7 years it would be more likely to finance the fleet. Thus the operator</p>	

Questions to respondents	Responses	Conclusion
	<p>considered that it would be a challenge to invest in vehicles if the contract term was only 3 years.</p> <p>A smaller operator responded by saying the contract term length was appropriate (as a minimum) and also that performance-based extensions should be considered.</p> <p>A respondent proposed that the Operator should have a right to terminate mid-contract if the contract was becoming unsustainable in terms of cost increases that were significant and ad hoc and therefore unable to be managed by the operator.</p> <p>Another smaller operator also preferred longer term contracts noting that assuming a 14-year average life for a bus, the suggestion would be for 7-year contracts, allowing for a mid-life refurbishment.</p>	

Table 11

Questions to respondents	Responses	Conclusion
<p><i>“To what extent does the Authority’s proposal provide you with the ability to manage cost risk and make a suitable return on investment?”</i></p>	<p>A smaller respondent operator said it would expect the LCRCA to take risk on major capital assets during the contract term and any extension thereof. This operator noted that a term of less than 5 years would limit returns made as a result of higher tendering and mobilisation costs over a shorter period of time.</p> <p>Another operator noted that various other factors would need to be considered in relation to the mitigation of costs, including: partnering arrangements to drive down costs (such as staffing and fuel); the possibility of the LCRCA providing set-up payments at the outset; risks in relation to assets; and TUPE costs and liabilities. This operator also commented that vehicle cost risk could be better managed by the operator if the LCRCA committed to buy back any vehicles which required capital expenditure.</p> <p>A larger respondent operator commented that it believed that it could manage cost risk, subject to receiving clarifications on various questions on this aspect. This operator noted that unless services were let on a ‘whole depot’ basis, new entrants were unlikely to receive the same return on investment whereas incumbent operators would be at a material advantage by being able to reduce their bid price.</p> <p>Another operator commented that it considered a 5 year contract term reasonable for it to bear cost risk (subject to indexation and provided bid requirements and margin levels were reasonable).</p>	<p>The majority of respondents confirmed that the LCRCA proposals would enable the operators to manage cost risk. A number of the respondents commented that where the operator was required to make an investment as part of the contract (for example in new vehicles) a contract term in excess of 5 years would be required for the operator to make a return.</p>

Questions to respondents	Responses	Conclusion
	<p>Another operator noted that whilst a 5 year contract term is sufficient for it to manage cost risk, it is not long enough to allow an operator to make a return on investment where the operator is required to put in place the infrastructure required for zero emissions buses</p> <p>Another larger respondent operator simply commented that it required more information with respect to fleet and depot strategies in order to answer this question. This operator also noted that there was a lot of risk round fleet/depot until the market stabilised after a number of rounds.</p> <p>A larger respondent operator noted that a 5 year contract term is not sufficiently long enough for it to invest in new vehicles, therefore external financing would need to be procured in this regard. This operator noted that a 5 year term was long enough for it to manage cost risk but it was silent in relation to return on investment.</p> <p>Another operator reiterated that a longer contract term would be preferred and that the contract should be subject to indexation and a suitable Change regime to protect the operator.</p>	

Table 12

Questions to respondents	Responses	Conclusion
<p><i>“Do you have any views on contract extension?”</i></p>	<p>A larger respondent operator commented that an overall contract term of 7 years was acceptable (but that 8 years was preferable). Three larger operators also noted that an extension would drive contractor performance and save the LCRCA time and costs associated with a re-tendering process. Two other larger operators generally shared this view, noting that extensions should be performance-based.</p> <p>A larger respondent operator commented that performance-based extensions should be automatic. This operator further noted that the LCRCA should have the discretionary right to grant an extension and that no extension should be less than 1 year.</p> <p>Another operator commented that (in its experience) performance-based extensions are less likely to encourage strong performance than a strong and achievable quality incentive mechanism. However, this operator noted that notwithstanding this, it supports contract extensions.</p> <p>Another larger respondent operator commented that it would expect the contract to incorporate a performance-based extension of minimum term of 2 years.</p> <p>Another larger respondent operator welcomed performance-based term extensions but considered that the operator should have the right to terminate on notice during the term of the contract given the uncertainty and risks associated with this new franchising scheme, for</p>	<p>The operators confirmed that they would support the inclusion of an extension mechanism within the franchise contract. The majority of operators considered that extensions should be performance based. The respondents also noted that TfL had recently replaced its performance based extension mechanism within its bus management contracts with a flat 7 year contract term.</p>

Questions to respondents	Responses	Conclusion
	<p>example, if there were significant and unsustainable cost risks.</p> <p>A smaller respondent operator noted that a mutually agreed 2 year performance-based extension is acceptable, whereas unilateral extensions imposed by the LCRCA would not be desirable.</p>	

7. Franchise design: Procurement

Proposition shared in the Information Memorandum

- 7.1. The procurement of franchise contracts will be governed by the Utilities Contracts Regulations 2016 (UCR) and other related legislation relevant to procurement law.
- 7.2. The LCRCA proposes to establish a qualification system under the UCR to pre-qualify prospective operators. This would enable a prospective operator to submit a single pre-qualification response and, if successful, to remain pre-qualified for the remainder of the franchising programme, entitling it to bid in all of the Rounds.
- 7.3. To be admitted to the qualification system a prospective operator would need to satisfy the LCRCA's stated selection criteria. These criteria would cover good standing; capability; capacity; and track record. It is also anticipated that the criteria would include a minimum financial standing requirement relevant to the scale of contract.
- 7.4. All prospective operators that satisfy the criteria would be admitted to the relevant qualification system. There would be no limit on the number of pre-qualified operators, and applications for admission to the qualification system can be made at any time, allowing for applications from new entrants or re-application from those whose position has improved since a previous (unsuccessful) application. Each pre-qualified operator would be required to keep its information refreshed and up to date. Any operator admitted to the qualification system would be removed if it no longer meets the selection criteria.
- 7.5. For each Round, the LCRCA would issue an invitation to negotiate (ITN) to all of the prospective operators that have been admitted to the qualification system (and, as applicable, that have passed any further, targeted pre-qualification exercise). The issue of the ITN would commence the bidding phase for that Round.

- 7.6. The LCRCA intends to adopt the negotiated procedure for the whole franchising programme. However, safeguards would be built in to ensure that each procedure is as effective and efficient as possible. This would include the right for the LCRCA to accept an initial bid for any given Lot, without triggering negotiations, where that bid delivers sufficiently strongly against the evaluation criteria (borrowing from a similar concept in the competitive procedure with negotiation that is available to contracting authorities under the Public Contracts Regulations 2015).
- 7.7. Having established a qualification system, the LCRCA proposes to have a continuous (and continually refreshed and updated) list of pre-qualified prospective operators, offering a ready-made group of market participants with whom an ongoing engagement dialogue can be maintained, to ensure that the procurement strategy continues to represent best practice while delivering the LCRCA's broad requirements (maximising competition; fairness and equal treatment; consistent high quality of services; and compliance).
- 7.8. The LCRCA proposes to retain the option to limit the number or size of Lots within a Round that a single operator can bid for or win. Any limit would apply on a Round-by-Round basis. The LCRCA would confirm any limit applicable to any Round(s) prior to inviting bids for the first Round, so that prospective operators have as clear a view as possible across the whole franchising programme.
- 7.9. Any limit might apply to the number of Lots within a Round that:
- a prospective operator can bid for; or
 - (more likely) a prospective operator can win, meaning that rules would be required to determine the allocation of Lots where a particular operator was the highest scoring for a number of Lots in excess of the limit.
- 7.10. The reason for imposing a limit would be to deliver outcomes such as: enhancing the diversity and resilience of the service operator market; facilitating strong competition for the Lots (by enhancing the opportunities for prospective operators to win); and facilitating the involvement of small and medium sized operators. The LCRCA considers that a procurement design that would permit one operator (or a small number of operators) to win all of the Lots would risk not delivering those outcomes.

Table 13

Questions to respondents	Responses	Conclusion
<p><i>“What does your organisation consider to be the optimal number of bidders that you would expect to see shortlisted at the main bid stage?”</i></p>	<p>A larger respondent operator stated that the optimal number would be between two and four. Further, this operator noted that for large tender Lots or groups of Lots, where the specification is complex and potentially risky (or during the early transition phase) four shortlisted bidders would be more appropriate. This operator noted that for smaller tender Lots (particularly where SMEs are involved), two shortlisted bidders would be appropriate (in order to reduce bidding costs).</p> <p>Another larger respondent operator noted the optimal to be three to four bidders here (but did not give any further details as to why it had this view).</p> <p>Another operator stated it was relaxed on the number of bidders shortlisted (provided that the bidding costs are not prohibitive).</p> <p>Another operator commented that it would expect two to three bidders to be shortlisted. Another larger respondent operator noted that it would expect a minimum of two bidders to be shortlisted, whilst another larger operator commented that three would be expected (based on the TfL / TfGM franchising schemes).</p> <p>The smaller respondent operators expressed no view on this question.</p>	<p>The respondents confirmed that they would expect between two and four bidders to be shortlisted for the main bid stage. However, the respondents also noted that the more important factor to them was prohibitive bidding costs rather than the number of bidders shortlisted.</p>

Table 14

Questions to respondents	Responses	Conclusion
<p><i>“Do you have any other comments in respect of the proposed procurement process?”</i></p>	<p>A larger respondent operator reiterated its view that tendering should be on a “whole-depot” basis to avoid incumbent operators having an unfair advantage.</p> <p>Another larger respondent operator noted that limiting the number of Lots that an individual operator can win is sensible. This operator expressed concerns over the LCRCA’s proposal of a direct award for any Lot without negotiation (where that bid delivers sufficiently strongly against the evaluation criteria). It stated that it is concerned in this regard because it seems unlikely that at the first stage bidders will have been fully able to assess and price the opportunity, and that it assumes the LCRCA may also still be assessing exactly what it wants to buy at this initial stage. Additionally, this operator commented that, in order to avoid a legal challenge, the evaluation criteria and assessment would need to be precise and unambiguous which may be difficult to achieve in the initial stage.</p> <p>Another operator noted that bidding costs are a key consideration for new entrants. This operator commented that a streamlined pre-qualification process that remains valid for the whole process is attractive as this significantly reduces costs. This operator noted that preferences expressed by operators in their bids should be accommodated if the LCRCA limits the quantity of Lots that a single operator can win.</p> <p>Another operator noted that the LCRCA’s pre-qualification system was a good approach in terms of streamlining the</p>	<p>The respondents confirmed that it would be important to simplify the procurement process as much as possible and that the ability to pre-qualify would assist with this aim. The majority of respondents indicated that where contracts were directly awarded and/or the numbers of Lots that could be awarded to a particular bidder would be restricted, the relevant selection criteria would need to be clear and provided in advance.</p>

Questions to respondents	Responses	Conclusion
	<p>process. This operator suggested including requirement for ‘o’ licence and also references from other clients as part of the pre-registration criteria (for example, TfL’s approach of using a Framework Agreement entered into by operators). This operator also commented that allowing operators to join at any time is a positive feature. Related to this point, this operator noted that it assumes that there may be a short-term deadline before a Round opens where an operator has to qualify before a specified date in order to bid in that Round. If this is the case, this operator suggested that this deadline isn’t excessively early in the process to deter new market entrants and encourage bids from the broadest pool of operators available at that time. This operator further recommended that the LCRCA should not be bound to accept the lowest economic cost bid and has the ability to consider additional factors such as quality or wider local benefit of selecting a particular operator (including (for example) social value contribution or environmental credentials). In terms of the limits proposed by the LCRCA, this operator stated that it would welcome further discussion on how this could work, as there may be concerns from an operator’s perspective regarding minimum size of award (to ensure viability for market entry/investment), potential loss of synergies if particular Lots could otherwise be inter-worked, potential issues surrounding depot site availability if multiple operators were to be awarded Lots in the same area etc. This operator expressed a further concern that there could be a risk of operators “cherry-</p>	

Questions to respondents	Responses	Conclusion
	<p>picking” Lots they wish to bid for and not bidding for others, if there were limits on the number which could be won. This operator noted that some authorities may also find having a limited number of operators easier to manage compared to the complexities and resource required to manage large numbers.</p> <p>Another larger respondent operator commented that it would like details relating to:</p> <p>(a) the evaluation criteria for any bid which does not trigger negotiation;</p> <p>(b) limitations set on operators’ ability to bid/win (noting that focus should be on cost-effective operation of services); and</p> <p>(c) the mobilisation period.</p> <p>Another larger respondent operator commented that the ITN proposal is appropriate to this procurement. This operator also noted that the direct award route for a sufficiently strong bid is efficient provided that transparency is maintained to ensure all operators have faith in the procurement exercise.</p> <p>Another larger respondent operator noted that the variability in Lot sizes may make it difficult to define appropriate restrictions on the award of Rounds. Further, this operator commented that any limitations on awards should be objective and specified upfront (for example, 80% of PVR) so that bidders can decide on which Lots to bid for and how to price, and that the procurement would need to be transparent.</p>	

Questions to respondents	Responses	Conclusion
	<p>A smaller respondent operator recommended that a significant share should be reserved for SMEs and that each contract should be tendered individually (with no packaging up of Lots since this would be anti-competitive and give a very dominant incumbent operator an advantage compared to SMEs).</p> <p>A smaller noted that having a PQQ allowing operators to be rated was a concern – if depot capacity is a metric but the CA is providing vehicles, what are the constraints for the rating?</p>	

Table 15

Questions to respondents	Responses	Conclusion
<i>“What information does your organisation consider necessary for it to be able to put together a bid?”</i>	The detailed requirements of the respondents are set out at Appendix 1.	The respondents provided detailed responses to the information that would be required in order for the respondents to bid. The underlying theme was that bidders required accurate operating information so that bidders could bid appropriately. Access to this information was particularly important to new entrants. Where operators are to be provided access to depots and fleet as part of the franchise contract, the respondents stated that they would need to survey and access those assets in advance of bidding.

8. Franchise design: Commercial aspects

Proposition shared in the Information Memorandum

(a) Fares and ticketing strategy (i.e., responsibility for establishing products and setting fares, and retailing tickets)

- 8.1. The LCRCA's vision for ticketing is a simple, easy to understand, customer focused and smart offer.
- The LCRCA would implement a common, simple fares and ticketing policy across all franchised services. This may include:
 - reducing and standardising the number of products available;
 - fare validity at all times on an individual service
 - simplified product availability for both singles and multi-trips; and
 - fare-capping (daily and weekly).

(b) Revenue risk allocation

- 8.2. The LCRCA would assume revenue risk across all franchised services. This means that the LCRCA will be at risk for any decreases in revenue (for example due to falls in patronage) and will be required to fund any resulting shortfalls.
- 8.3. However, operators will be incentivised to encourage passenger usage through the performance regime by meeting performance standards related, for example, to bus standards, passenger satisfaction and driver compliance.

(c) Marketing and brand management

- 8.4. The LCRCA would control the specification and branding of buses and related infrastructure/ticketing systems and will standardise vehicle quality requirements, external branding and identity for bus services, to support a consistent user experience across all local transport services.

(d) Customer relations and service quality

- 8.5. The LCRCA would operate all central customer service and support functions. Passengers' day-to-day interaction with the bus network will be with operators' bus staff (e.g., drivers), who will be responsible for maintaining the quality of service and customer interaction. The operator's performance will be incentivised and measured through the performance incentive regime set out in the franchise contract and referred to below.

Table 16

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed fares and ticketing strategy to be appropriate? Are there any areas where you would consider the franchise operator to be better placed to manage risk and, if so, why?”</i></p>	<p>Responses were generally supportive of the LCRCA’s proposed approach to implement a common, simple fares and ticketing structure, recognising the scope to reduce and standardise the different ticket products available.</p> <p>One of the larger respondent operators stated that the LCRCA should be responsible for fare protection and another noted that there was little detail on how a common, simple structure would be implemented, its effects on the financial equilibrium of bus operations in the franchising area, and its effect on customers both in terms of choice and affordability. Proposals would need to ensure that significant groups of customers were not disadvantaged from the restructuring of tickets and fare capping and ticketing validity should extend to multi-modal capping and interoperability where practicable.</p> <p>One respondent operator urged the LCRCA to consider the phasing out of cash, given its success in London in speeding up the boarding of buses and reducing operating costs.</p> <p>Another operator was generally supportive but suggested that the proposition would be better if there was scope for operators to make suggestions and share experiences of other markets in order to improve the attractiveness of the proposition to the customer in a more sustainable manner.</p> <p>Another operator considered that the proposal was appropriate but commented that some thought was required around</p>	<p>The responses received confirmed that the fares and ticketing strategy proposed by the LCRCA was broadly appropriate.</p>

Questions to respondents	Responses	Conclusion
	<p>fare protection and the party that should have responsibility for that. This operator considered that it would make the most sense for this to sit with the LCRCA.</p> <p>One operator commented that the LCRCA should adopt the prevailing commercial fares, otherwise there is a risk of cross subsidy from well patronised areas in the LCR distorting the open market in adjacent areas.</p>	

Table 17

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed allocation of revenue risk to be appropriate? Are there any areas where you would consider the franchise operator to be better placed to manage risk and, if so, why?”</i></p>	<p>All responses received to this proposal were positive and operators generally agreed that the LCRCA should take revenue risk if the LCRCA set the design of the network, service standards and fares, save for one operator who stated that it would like the opportunity in the tender to propose ways to increase revenue and manage costs effectively as part of a collaborative approach.</p> <p>Respondent operators noted that any service levels or KPIs should be within the operator’s direct control, developed in consultation with bidders and benchmarked over the mobilisation and implementation period of the contract before enforcement to avoid unintended financial consequences. One operator stated its preference for a reward-based (rather than a deduction-based) performance regime, as proposed by the LCRCA.</p>	<p>The majority of respondents confirmed that the LCRCA’s proposed approach to the allocation of revenue risk in relation to the franchising proposal was appropriate.</p>

Table 18

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed marketing and brand management strategy to be appropriate? Are there any areas where you would consider the franchise operator to be better placed to manage risk and, if so, why?”</i></p>	<p>The responses received to this proposal were positive and operators generally agreed that the LCRCA should control the specification and branding of buses and related infrastructure/ticketing systems. The other key responses were as follows:</p> <p>One operator commented that it would expect the LCRCA to work pro-actively with the operators to develop vehicle quality requirements but would not expect vehicle quality requirements to form part of any performance regime;</p> <p>One operator commented that the LCRCA should develop a unified brand, linked to the existing Merseytravel brand, and that a limited element of branding should identify the operator’s vehicle (as is the case in London);</p> <p>Two operators noted that it would be advantageous to share best practices across the industry and that any route-specific branding requirements would need to be carefully considered.</p>	<p>The majority of respondents confirmed that the LCRCA’s proposed approach to marketing and brand management strategy in relation to the franchising scheme was appropriate.</p>

Table 19

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed allocation of customer relations and service quality responsibility to be appropriate? Are there any areas where you would consider the franchise operator to be better placed to manage risk and, if so, why?”</i></p>	<p>Operators generally agreed that the LCRCA should operate central customer service and support functions. One operator stated that it would prefer to be responsible for these functions (noting that there was value in consolidating some aspects of customer service and the design and specification of the level of customer services should rest with the LCRCA) and two operators noted that further information would be required to understand how this would work on the ground.</p> <p>All operators noted that systems should be put in place to communicate complaints to operators swiftly and to enable them to respond effectively to any performance issues or incidents. The other key responses were as follows:</p> <p>One operator stated that the LCRCA should make no admission of liability while incidents were being investigated and that any claims submitted to the customer relations team should be treated without prejudice; and</p> <p>One operator stated that systems for sharing real-time information and communicating any service issues would be essential and recommended a mechanism whereby customer services and operational staff would collaborate and learn about the roles that each other played.</p>	<p>The majority of respondents confirmed that the LCRCA’s proposed allocation of customer relations and services quality responsibility in relation to the franchising scheme was appropriate.</p>

9. *Franchise design: Operational aspects*

Proposition shared in the Information Memorandum

- 9.1. The price bid by operators should cover their underlying costs together with their profit requirement. During the franchise term operators would be at risk for increases in operating costs, including fuel costs. This will be mitigated to some extent by indexation of franchise payments.
- 9.2. The LCRCA would be open to discussion with operators about the form of contract, for example:
 - the LCRCA contracts operators to deliver a set mileage and pays operators per mile; and/or
 - the LCRCA contracts operators to deliver a timetable.
- 9.3. Alternatively, the LCRCA would be open to considering a form of contract whereby the operator specifies mileage/timetable/passenger journeys/other measure, with incentives on the operator to optimise.
- 9.4. Within each franchise contract, the LCRCA proposes to incorporate a reward-based (rather than a deductions-based) performance-based incentive regime. The LCRCA envisages that the regime will cover areas including:
 - Core KPIs (e.g., running services on time);
 - Specification measures (e.g., CCTV on vehicles, destinations clearly displayed);
 - Bus standards (e.g., average age of vehicles, cleanliness, Euro emissions standard);
 - Passenger satisfaction (e.g., number and nature of complaints received);
 - Driver performance (e.g., uniform compliance, behaviour);
 - Fares, revenue and monitoring (e.g., accuracy of returns/data, ETM issues);
 - Improvement notices, warnings and benchmarking;
 - Brand Standards;
 - Passenger journeys (e.g., increase in journeys over the duration of the contract); and
 - Accident investigations.

Table 20

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed allocation of operational cost risk, including fuel cost risk, to be appropriate?”</i></p>	<p>Operator responses to the LCRCA’s proposed allocation of operational cost risk (particularly, in respect of fuel) were mixed. Two large operators were supportive of the proposed allocation, provided a mechanism was agreed to limit the risk and operators were given sufficient time between bid and award to manage it. Other operators expected fuel cost risk to sit with the LCRCA or be shared between the parties.</p> <p>The key responses in relation to this were as follows:</p> <p>Operators suggested that costs should be appropriately indexed and one operator suggested a “cap and collar” mechanism for fuel price movements relative to indexation;</p> <p>Some operators commented that the cost of fuel for new technologies was difficult to predict and manage. One operator stated that the LCRCA should bear the risk of increases to fuel cost and inflation above an agreed threshold and another operator expected all fuel cost risk to sit with the LCRCA;</p> <p>Another operator suggested that, subject to further understanding, the LCRCA could purchase fuel/ power on behalf of all operators as a means of reducing costs; and</p> <p>One operator agreed with the proposed allocation of operational cost risks other than fuel, provided a consultation and variation process was inserted to deal with significant changes in road traffic conditions.</p>	<p>The majority of respondents were broadly in agreement with the LCRCA’s proposal in relation to the proposed allocation of operational cost risk. Respondents also had concerns around risks associated with fuel prices.</p>

Questions to respondents	Responses	Conclusion
	<p>A number of the smaller operators flagged that it was difficult to predict fuel costs and wages more than two years in advance and that a ratchet mechanism should be included within the contract. It was also noted that RPI may not always reflect the specific cost changes to the bus industry.</p>	

Table 21

Questions to respondents	Responses	Conclusion
<p><i>“What is your preferred form of contract?”</i></p>	<p>Three of the large operators expressed a strong preference for a contract based on delivery of a timetable (“Option B”). None of the operators expressed a preference for a contract based on payment per mile (“Option A”), though some noted that there were pros and cons for each form of contract and that a set mileage contract could work for smaller contracts.</p> <p>The key responses in relation to this were as follows:</p> <p>Operators stated that Option B provided a higher level of cost/revenue certainty and ensured operators would not be exposed to disproportionate changes. However, this could make the contract “rigid”;</p> <p>Operators stated that not all mileage would be equal under Option A as this could be affected by time of day and location. There was also no incentive to optimise scheduling;</p> <p>One operator suggested that Option A could work for small and predictable contracts where there were fewer variables at play;</p> <p>One operator stated that it was open to both Options A and B, though it required further detail on how both would work in practice; and</p> <p>Another operator preferred a form of contract that would allow the operator to innovate by allowing the operator the opportunity to optimise the use of schedules and resources.</p>	<p>The respondents generally favoured Option B as the form of franchise contract but noted that in some instances Option A may be appropriate.</p>

Table 22

Questions to respondents	Responses	Conclusion
<p><i>“What are your views on an appropriate indexation mechanism? How would you wish this to work under a proposed franchising model? What would you propose as a fair and representative indexation mechanism?”</i></p>	<p>There were various responses from the operators regarding preferred indexation mechanisms, with the general consensus being that bidders should be able to take a reasonable judgement on inflationary risks. Fuel price indexation was a key concern for a number of operators.</p> <p>The key responses in relation to this were as follows:</p> <p>One operator recommended that the LCRCA incorporate a specific allowance for electricity pricing indexation, in light of recent volatility in commodity prices, with a cost price adjustment based on a basket of indices;</p> <p>One operator’s preference was for the whole fee to be indexed partly in accordance with RPI/CPI and partly in accordance with fuel prices;</p> <p>One operator stated that CPI should be applied to the majority of the contract, while a proportion should be linked to energy prices;</p> <p>One operator proposed a labour cost component to be increased by pay award increases with the remaining cost linked to RPI;</p> <p>One operator suggested an indexation mechanism based on (i) RPI/CPI; (ii) labour rate for bus drivers; and (iii) fuel prices for the previous 12 months; and</p> <p>One operator expressed a preference for CPIH-linked indexation.</p> <p>One larger operator proposed that in addition to a risk mechanism relating to fuel prices, the contract should have inflationary increases at regular intervals linked to CPI/RPI.</p>	<p>There was no consensus between the respondents in respect of the indexation mechanism to be utilised in relation to any franchise payment.</p>

Table 23

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you consider the proposed performance mechanism measurement areas to be appropriate and why? What alternative approaches do you think the Authority should consider?”</i></p>	<p>There was agreement amongst the operator responses that there should be a reward-based performance mechanism, provided the KPIs were within the operators’ control. Operators expressed different opinions on what elements the performance regime should comprise; however, stressed the need for achievable KPIs, and ease of calculation/ measurement.</p> <p>Some operators stated that the LCRCA should consider including engineering maintenance; an audit of fleet maintenance standards / performance against DVSA standards; and on-bus features (such as CCTV and WiFi) in any mechanism.</p> <p>Some operators stated that they would not want any mechanism to include KPIs based on qualitative assessments (such as driver performance / vehicle features); safety assessments undertaken by the LCRCA or statutory bodies; patronage or passenger satisfaction, as these were not entirely within the operators’ control.</p> <p>Two operators expressed a preference for an in-life contractual review process and one operator stated its preference for a cap on both operator and LCRCA liabilities under any performance regime.</p>	<p>The respondents agreed that the performance regime should be reward based. The respondents proposed a number of different elements that could be measured to determine performance, with a consistent theme that the measurements should be within the operators’ control.</p>

10. Franchise design: Assets

Proposition shared in the Information Memorandum

- 10.1. The LCRCA is considering a model where all Zero Emission Buses (ZEBs) will be owned or otherwise made available by the LCRCA. In addition, there would be a trajectory to diesel bus replacement with an anticipation that the fleet will comprise solely ZEBs by 2028. On that basis, the LCRCA is interested in the market's views in relation to (a) the ownership/availability structure for diesel buses during the ZEB roll out/transition period and (b) the ownership/availability structure for ZEBs generally.
- 10.2. The franchising requirements would specify the fleet requirements for each Lot, including the maximum average age and specification of vehicles and how they are to be provided. Requirements for the fleet will differ between Lots and will be determined on a contract-by-contract basis. It is not anticipated that all Lots will require new vehicles.
- 10.3. The LCRCA is considering three core options for fleet provision (described below) and may adopt a combination of them as appropriate in different parts of the scheme.

Option 1: Operator-provided fleet

- 10.4. Operators provide their own fleet and recover the cost of providing vehicles as part of their bid price. Operators' vehicles will need to meet the specific requirements for the Lot as specified by the LCRCA within the franchise contract.

Option 2: Operator-provided fleet with Residual Value Mechanism

- 10.5. Operators provide their own fleet, with an option for the LCRCA (or a new franchisee) to take ownership of the fleet for a fixed price at the end of the franchise. This fixed price would be guaranteed as part of a residual value mechanism.

Option 3: LCRCA-provided fleet

- 10.6. The LCRCA provides vehicles to the operators. During the franchise term operators will be responsible for maintaining the vehicles to the required standard and required to hand these back to the LCRCA at the end of the franchise term at a specified standard.

Table 24

Questions to respondents	Responses	Conclusion
<p><i>“What are your comments on the options described above? Which option(s) would be suitable for your organisation and under what circumstances? Which option(s), if any, would not be suitable for your organisation and why not?”</i></p>	<p>There was a mixed response to the preferred option, with 4 larger operators favouring Option 3 and 3 other operators preferring Option 2. None of the operators preferred Option 1, with some suggesting that they would consider not bidding for a franchise contract should Option 1 be put forward. Most commented that Option 3 would be the most logical and effective.</p> <p>The key responses in relation to this were as follows:</p> <p>One operator suggested the provision of buses to the LCRCA’s specification should be by the LCRCA (Option 3), as buses used in other markets could be restricted;</p> <p>One operator preferred Option 3 as the asset, and any costs in relation to acquiring the vehicle, sits with the LCRCA. This would have the effect of maintaining customer service and satisfaction as well as standardising throughout the LCRCA area;</p> <p>One operator preferred Option 3 because it would prioritise the transformation to 100% zero emission buses (‘ZEB’) as soon as possible, which in turn would promote the introduction of appropriate depot-based re-fuelling infrastructure. This operator stated it would be unlikely to bid if Option 1 was put forward;</p> <p>One large operator preferred Option 2 on the basis that operators have extensive relationships with manufacturers and can leverage those to obtain better terms.</p> <p>One respondent stated that Option 2 would involve an increased managerial burden for the LCRCA and Option 1 would result in operators aiming to avoid RV risk</p>	<p>There was no clear preference expressed by the respondents between Options 2 and 3. None of the respondents had a preference for Option 1.</p>

Questions to respondents	Responses	Conclusion
	<p>and looking to recover their investment over the first franchise period;</p> <p>One operator put forward a strong preference for Option 3, arguing that Option 1 only works in very large markets where the operator can recycle vehicles into other contracts; and</p> <p>One operator stated that it was open to the LCRCA providing the vehicles but noted that the lease was likely to cost more than if the operator provided the vehicles and the cost would be more if the lease was only for 5 years. The operator also noted that it would be a challenge to invest in fleet if the contract was only 3 years in length. Shorter term contracts, for example during transition, would be easier if existing/diesel fleet could be used.</p> <p>One operator preferred Option 2, noting that stranded assets would be an issue if incoming operators were to provide their own fleet. This operator also considered that Option 1 would be a barrier to entry.</p> <p>Another operator preferred Option 2 as it provided flexibility for the operator to purchase vehicles that have a track record.</p>	

Table 25

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you believe it is beneficial for the CA to provide the fleet for franchises? What would be your preferred fleet ownership model and why?”</i></p>	<p>Most operators considered that if LCRCA provided the fleet it would provide efficiency and competition. However, a number of operators also noted that the operator owned model had been successful in London.</p> <p>The key responses in relation to this were as follows:</p> <p>One respondent stated that the LCRCA fleet provision model would allow for an operator competition on a level playing field by removing the main barrier to entry (namely bus ownership) which is essential to enhance value for money and steer away from the monopolistic nature of the current deregulated market;</p> <p>One operator stated that it would prefer the LCRCA to provide the new ZEB fleet as this would offer the most efficient funding and financing solution over the long-term (3 rounds of 5-year contracts for example) which would in turn help to create a competitive market;</p> <p>One operator stated that an operator-owned fleet would generate opportunities to standardise fleets that are nevertheless compliant with specification set by the LCRCA. There would be a risk that the LCRCA may become liable for investment decisions under Option 3;</p> <p>One operator commented that operator ownership would be similar to the successfully followed model in London; and</p> <p>An operator commented that if the operators were to provide the fleet there was a risk of the operator incurring higher costs on refreshing end of life ZEB parts.</p>	<p>The majority of respondents considered that if the LCRCA provided the fleet it would increase the opportunity for competition and would provide opportunities to standardise the fleet and fund new fleet efficiently.</p>

Questions to respondents	Responses	Conclusion
	<p>This operator also queried who would own and maintain ITS equipment.</p> <p>Another operator considered that Option 3 was necessary for the LCRCA to transform the bus fleet to ZEBs as desired. This operator also commented that Option 3 would be more straight forward for LCRCA to own the assets and make them available to the operators, rather than fixing the price of residual value of assets at the start of the franchise term.</p>	

Table 26

Questions to respondents	Responses	Conclusion
<p><i>“What other models for fleet provision do you believe the CA should consider? Please elaborate regarding whether any specific model is more appropriate to transform the network to zero emissions.”</i></p>	<p>Most operators seemed to not want to put forward alternative suggestions to those provided, although some did suggest alternative leasing models.</p> <p>The key responses in relation to this were as follows:</p> <p>One operator stated there were “no other” models for fleet provision that they believe the LCRCA should consider;</p> <p>One operator preferred Option 3, stating it is best aligned with the desire to move to ZEB;</p> <p>One respondent stated that delivery of a fit-for-purpose 100% ZEB fleet (as specified by the LCRCA) on a round-by-round basis would significantly lower bidding operators’ barriers to entry.</p> <p>Another operator noted that there should be a residual value mechanism for the infrastructure required to power ZEBs;</p> <p>One operator strongly recommended the LCRCA to purchase ZEBs and existing fleets as the value for money of franchising was driven by competition for the market; and</p> <p>One operator suggested that it could work with a leasing supplier to provide vehicles at negotiated rates to operators.</p>	<p>The majority of respondents agreed that there were no other models for fleet provision that LCRCA should be considering.</p>

Table 27

Questions to respondents	Responses	Conclusion
<p><i>“To what extent do you think the options described above will support the Authority’s objective of transitioning to a net zero fleet? What alternative approaches do you think the Authority should consider to better achieve this objective?”</i></p>	<p>Most operators stated that Option 3 would assist in transitioning to a net zero fleet, although a minority of respondents considered this would be achievable via Option 2.</p> <p>The key responses in relation to this question were as follows:</p> <p>One operator stated that, rather than suggesting an alternative approach, it might be better to go further and improve on Option 3, ensuring a holistic approach towards introduction of ZEBs;</p> <p>One operator stated ZEBs would only be affordable with government support and that the LCRCA was best placed to negotiate this;</p> <p>One operator stated that all 3 Options could deliver a transition to ZEBs, though the speed and cost efficiency would differ under each;</p> <p>One operator stated that Option 3 was preferable where untested technologies were being proposed. However, it would also expect operators to be protected against higher operational costs (for example, arising from vehicle reliability and high servicing cost issues caused by failure of the manufacturer to provide vehicles of appropriate reliability);</p> <p>Another operator considered that operator expertise should be utilised to purchasing new fleet and that the transition to ZEBs should occur as early as possible in the new franchising system; and</p> <p>One operator stated that the LCRCA could assist in achieving a net zero fleet</p>	<p>The majority of respondents considered that Option 3 would assist in the transition to net zero. However, the respondents also considered that the transition to net zero was not precluded by the other Options proposed and a minority of respondents considered this would be best achieved via Option 2.</p>

Questions to respondents	Responses	Conclusion
	by working with operators to ensure that planning authorities and other third parties prioritised bringing additional power to depots.	

11. Depots

Proposition shared in the Information Memorandum

- 11.1. The LCRCA's strategic objective of achieving a ZEB-only fleet by 2028 means that depots will need to be equipped to service ZEBs.
- 11.2. It may not be economic or desirable to convert the existing depots for ZEBs.
- 11.3. Therefore, the LCRCA is considering investing in strategically located depots which would be made available for use to any operators who secure a contract to run franchised services in the LCR and will be primarily for ZEBs. Access to depots would be incorporated into the terms of franchise contracts and will support multi-operator use.
- 11.4. Division of Rounds into Lots may lead to a requirement for depot sharing.

Table 28

Questions to respondents	Responses	Conclusion
<p><i>“What are your views on depot ownership? Do you agree that the Authority should invest directly in and own depots? What alternative approaches to depot investment and ownership would you propose and why?”</i></p>	<p>The majority of operators agreed that depots were best owned by the LCRCA or a third party and leased to operators for the franchise term. Some operators were clear that the LCRCA should mandate the use of depots in order to prevent potential market distortion by incumbents. If operators were required to provide their own depots, there would be a greater need for contract security/duration of the franchise and support in financing charging infrastructure.</p> <p>Other key responses in relation to this were as follows:</p> <p>One operator stated that depots should have a restriction on use to prevent operators using them to distort local service contract markets;</p> <p>A number of operators expressed concerns around depot sharing;</p> <p>One operator stated that it was open to owning or leasing depots, depending on the proposed location to ensure efficiency of operation and optimisation of utilisation of resources. That operator noted that the size of depots would be crucial for zero emission conversion and that not all existing depot locations would necessarily be suitable for zero-emission bus deployment.</p>	<p>The majority of respondents confirmed that depots should be independently owned/ made available to operators as part of the franchise scheme.</p>

Table 29

Questions to respondents	Responses	Conclusion
<i>“Would your organisation consider bidding for a franchise if the LCRCA was not providing a depot(s)?”</i>	The majority of large operators stated that they would consider bidding for a franchise if the LCRCA was not providing a depot, provided that certain assumptions/ protections were in place. These included: a ‘buy-back’ mechanism of depot assets at the end of a franchise contract or a lease transfer arrangement; a guarantee that incumbent bidders would not be placed at an advantage; stability in contract size and duration; support for charging infrastructure; the availability of suitable properties; ability to include assumptions on the depot at bid stage; access arrangement to existing depots; and a minimum 12-month lead time.	The majority of large operators confirmed they would consider bidding for a franchise contract, even if the LCRCA did not provide depots. However, this was on the basis that there was a level playing field and that incumbents would not have an advantage.

Table 30

Questions to respondents	Responses	Conclusion
<p><i>“If the LCRCA were not to provide depots, what would be the lead time required to mobilise for a franchise? Would it be beneficial to have a buy-back arrangement for the LCRCA to take over the depot at the end of the franchise?”</i></p>	<p>The majority of operators agreed that a 1 – 2 year lead time for mobilisation would be likely, depending on the availability and suitability of existing sites, infrastructure requirements, and local planning permissions. One of the operators estimated the lead time as 2 – 3 years.</p> <p>Most of the operators commented on the difficulty and risk in being asked to procure their own depots, with such a requirement likely to lead to a competitive disadvantage with incumbents.</p> <p>The operators generally agreed that a buy-back arrangement (or another mechanism to guarantee residual value) would be essential in this scenario.</p>	<p>The majority of respondents were in agreement that the mobilisation time required for a franchise contract where the LCRCA did not provide access to depots would be between 12-24 months and potentially longer where new charging infrastructure was required for ZEB. The respondents also agreed that a type of buy-back arrangement would be required where the operator was required to provide depots.</p>

Table 31

Questions to respondents	Responses	Conclusion
<p><i>“What are your views on the options for depot management and sharing? What would you see as being the benefits and disadvantages of an ‘anchor’ tenant being responsible for depot management versus direct management by the Authority?”</i></p>	<p>Operators were generally against the idea of depot sharing, though some acknowledged that it may be necessary to deliver cost-effective services. They cited potential problems with cost apportionment, confidentiality, staff retention, conflicts in permitting access in and out of depots, industrial relations and consistency of safety processes.</p> <p>Some operators stated that if depot sharing was implemented, then they would prefer the LCRCA to directly manage such arrangements rather than an anchor tenant. If there was an anchor tenant, one operator stated that safeguards should be put in place to ensure smaller/secondary tenants were not disadvantaged (as there would be a significant risk of the anchor tenant favouring their own assets/operations).</p>	<p>The respondents generally did not favour depot sharing and highlighted issues that could arise. However, the respondents also noted that there could be efficiencies in the sharing of charging infrastructure and that having two depots on a large site was not the same as sharing the depot itself. The respondents also noted that in certain circumstances depot sharing has been able to work (e.g., with TfL).</p>

Table 32

Questions to respondents	Responses	Conclusion
<p><i>“To what extent, if any, does the Authority’s proposed depot ownership structure influence your views on the lotting strategy set out in Area for Engagement 1?”</i></p>	<p>One respondent stated that the proposed depot ownership structure did not influence their views on the lotting strategy. Other key responses in relation to this question were as follows:</p> <p>One operator reinforced its view that Lots should be tendered on a depot-wide and depot-specific basis and that significant issues could arise if Rounds did not encompass concurrent “whole depot” franchising;</p> <p>One operator stated that if operators were asked to provide depots, it would be difficult for new entrants to bid in early rounds. If the LCRCA provided existing depots it would be necessary to allocate entire Lots to a single operator, which would not produce the competitive market that the LCRCA is aiming for. The simplest solution would be for the LCRCA to provide new depots, which admittedly could create inefficiencies;</p> <p>Another operator commented that the depot ownership structure reinforces the need for Lots to be tendered on a geographic basis;</p> <p>One operator stated that there was a significant benefit in a depot-based lotting strategy whereby Lots/Rounds were linked to a particular LCRCA-provided depot.</p> <p>One operator noted that if Lots were aligned to a depot it would make the services easier to deliver as all of the routes would be from the optimum depots. This operator noted that there was already sufficient depot space within the LCR.</p>	<p>The respondents provided mixed responses, with almost half of the respondents confirming that the depot ownership strategy did not influence their views on the lotting strategy. However, a number of respondents commented that the most appropriate lotting strategy would be aligned to a depot.</p>

12. *TUPE-transfer of staff from existing operators*

Proposition shared in the Information Memorandum

- 12.1. The implementation of a franchising scheme may mean that some staff transfer between operators or from operators to the LCRCAs by virtue of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).

Table 33

Questions to respondents	Responses	Conclusion
<p><i>“Please set out your current views on what TUPE-transfers of staff will be required in the event that your organisation wins one or more franchises, including any concerns you may have and/or risks you may perceive.”</i></p>	<p>Most of the respondent operators acknowledged that certain employees will TUPE transfer where the relevant criteria are met and some had concerns in relation to pension liabilities in particular.</p> <p>A larger respondent operator noted a potential risk whereby some “in scope” employees who are eligible to TUPE transfer to a new operator choose instead to remain with their existing employer, thereby leading to a new entrant starting the services with staffing shortages (which may dissuade new entrants from bidding). This operator noted that this risk could be mitigated if the services were let on a “whole-depot” basis, as a result of larger groups of employees being more comfortable to transfer as opposed to smaller groups of employees. Another risk flagged by this operator related to pension liabilities – this operator queried how the LCRCA is proposing to handle employee benefits and employer liabilities.</p> <p>Another operator flagged that certain senior employees may not necessarily be eligible to TUPE transfer. This operator commented that this is a risk (on one hand) since expert and know-how would not be retained, but that (on the other hand) this may also be an opportunity to inject new talent at a senior level. This operator also commented that some roles may TUPE transfer to the LCRCA (for example, branding and marketing roles).</p> <p>Another operator flagged that new entrants are at greatest risk of staff shortages if sufficient staff do not TUPE transfer but countered that the LCRCA should seek to agree a “more business-like” protocol with bidders in relation to staff transfers (rather</p>	<p>The respondents noted that staff should transfer to a new franchise operator and that is how the majority would expect franchise contracts to be staffed. However, a number of respondents noted that the incumbent may offer existing staff an alternative role, meaning the staff don’t transfer which could lead to staffing shortages. The respondents noted further risks, but there was not a consensus regarding these risks.</p>

Questions to respondents	Responses	Conclusion
	<p>than rely in the timescales required by law, which were noted to be very limited).</p> <p>Another operator noted that launching a franchising scheme will require substantial engagement with trade unions and workforce, and that expectations in relation to new depots and relocation of staff need to be clearly mapped out in order to protect the credibility of the franchising. This operator also commented that risks to staff disruption are likely to be mitigated if the services were let on a depot by depot basis. This operator also noted that there may be benefits in relation to new job creation and use of apprenticeship schemes if some existing employees opt to remain with their existing employer. This operator also flagged that new entrants are likely to require a combination of staff who TUPE transfer and staff who are specifically recruited.</p> <p>Another larger respondent operator flagged a risk of adverse costs arising from the TUPE transfer of employees who are employed subject to particular terms and conditions.</p> <p>Another larger respondent operator noted that it will require information as to the volume of staff and the split of the same across the Lots. This operator flagged the main risk as being incomplete disclosure of staffing information within the require timescales. This operator recommended that the incumbent operators agree a format for the purposes of disclosing the staffing information, including legally enforceable warranties in relation to the accuracy of the information provided. This operator also flagged a risk of procurement challenge if the staffing information is flawed.</p>	

Questions to respondents	Responses	Conclusion
	<p>Another larger respondent operator echoed the view that detailed staffing information will need to be disclosed to bidders. This operator also flagged that operator should not be expected to incur historic pension liabilities which are not within the scope of TUPE.</p> <p>A smaller respondent operator noted that the LCRCA needs to consider how pension liabilities which fall outside the scope of TUPE will be continued.</p> <p>An operator noted that they were concerned about availability of resourcing at the start of the franchise if not enough staff, e.g., drivers transfer across from the previous operator. The same operator suggested putting in “final 12 months” provisions in the contract to prohibit activities that can have an adverse impact on the incoming operator’s operations – similar to rail franchising.</p> <p>A smaller operator considered that TUPE would mean the levelling-up of wages and that there could be issues where the existing operator has high wages as a bidder would take on those costs if they won the contract.</p>	

Appendix 1

1. A larger respondent operator comprehensively answered this question by having the following comments:
 - further information is required as to the degree to which individual tender Lots will be grouped and whether the LCRCA will provide key assets, including depot premises and related infrastructure, vehicles and on-bus Information Technology Systems (ITS) such as ticket machines and CCTV.
 - In order to achieve a “level playing field”, a number of key considerations need to be addressed as follows:
 - For depot premises, potential bidders need to be convinced that they will not fail to win a bid because an incumbent can choose to bid with either minimal or zero property costs whereas the new bidder will need to include genuine ‘market-rate’ property costs. This risk would be eliminated if the LCRCA mandated use of property it owned at fixed cost to all bidders to access and use. By contrast, the risk could materialise if the LCRCA franchised a minority of the services allocated to an incumbent operator’s depot.
 - For depot premises, potential bidders should ideally be provided with access to the premises for themselves and any relevant contractors prior to contract commencement – indeed, prior to bidding – to undertake condition surveys as necessary and undertake any reasonable and relevant re-fitting (for example, installing relevant IT connections). The LCRCA could ensure this by taking ownership of premises in sufficient time (or with appropriate conditions in place) before the procurement exercise commence.
 - This operator noted that the solution it sees to enable the LCRCA to maximise competition is to tender on a ‘whole-depot’ basis. It reiterated its view that any other procurement basis risks an unfair advantage for incumbent operators and a decision by potential new market entrants to not bid.
 - For vehicles, if the LCRCA determines continued use on franchised routes of vehicles currently deployed in the Combined Authority area by incumbents, this operator noted that it would be reasonable to expect new market entrants to have access to examine those vehicles and their inspection records prior to franchise procurement.
 - In relation to bus equipment ownership and access, this operator noted that confirmation of condition is another significant area where the LCRCA would need to take action to ensure a level playing field.

2. Other areas where incumbent operators have significant and important market dominance are in “information”. This operator noted that this includes: employee terms and conditions of employment; rates of pay; collectively negotiated agreements in place between employees and employers; pension schemes and pension liabilities; costs of maintaining and operating fleet; IT systems; premises and other assets; condition of depots and other assets; and operating costs (including costs of heat, light and power to buildings and fuel efficiency of vehicles.
3. For employee terms and conditions of employment, this operator expects that the LCRCA will need to develop a mechanism which ensures all bidders are bidding on a level playing field, especially if the LCRCA is unable to extract such information from incumbent operators. This operator noted that historic staff turnover rates, staff attendance and absence records can be useful indicators of what might be expected in future. This operator also commented that historic motor insurance risk records can give an indication of future risk and the cost of insurance cover.
4. In terms of franchise specification, this operator noted that it would expect the LCRCA to be able to provide an open data source in terms of service frequency and, ideally route mileage data. This operator commented that it would not be reasonable to hold a new market entrant to the same standard of service expectation in terms of “on-time running” as in incumbent operator where the incumbent had historic data upon which it could rely and new market entrants had no access to the same data.
5. This operator noted that the areas covered above in terms of “information” are not necessarily exhaustive at this stage but that they indicate aspects of franchising bus services where the LCRCA is likely to wish to consider its approach.
6. Lastly, this operator commented that in order for it to put together a bid, it would need to consider any proposed bus services Framework Agreement. If this include a performance bond or guarantee, this may lead to operators choosing not to bid. This operator also noted that all other proposed commercial arrangements including any finally proposed performance management regime and service quality standards will need to be considered.

7. Another operator noted that it would need clarity over all aspects of the existing assets and resources, including all of the contractual mechanisms. This operator commented that information that it would require to bid includes:
- details of the residual value mechanism;
 - employee numbers/costs/JDs;
 - On/Off bus system;
 - fuel costs;
 - pension liabilities; and
 - the broader plans that the LCRCA has for buses in the region.
8. Another larger respondent operator commented that the information contained in the TfL bus franchising tender provides a good example of the information it would require. This operator also noted that the information for the LCRCA franchising scheme would need to be supplemented with running cost information and information regarding the resources provided within the depots which are to be provided.
9. Another respondent operator provided the following non-exhaustive list as being the information it would expect to see:
- Route and Service information;
 - Anticipated passenger profiles and volumes (by stop or route section, by time of day) if available;
 - Proposed PVR by route / by day;
 - Any waiting restrictions at termini or allowances, including any dead mileage required to access parking areas or turn a bus. Any charges or limits on vehicle numbers / time in parking areas;
 - Any known changes to routes or major roadworks / infrastructure changes along route, expected during the contract period;
 - Any service specific supervision to be provided;
 - Staff information: (generally as much information as is available which could have an impact on an operators' planning which could include):
 - All employment terms and conditions and working practices where these practices will be required to continue under TUPE in the form of a completed ELL;
 - Any additional relevant detail e.g., time at termini, locations for driver reliefs, walking and ferry bus times to current relief points and confirmation which, if any, of these are protected under TUPE;

- Any staff eligible for TUPE but currently on long-term sick, maternity leave etc.;
 - Any restrictions or agreed working patterns for individual staff;
 - Union Recognition and any collective agreements in place;
 - Status of any pay or T&C negotiations;
 - Any ongoing claims or disputes;
 - Details of any sub-contracts used to perform the service;
 - All of the above to also apply for any support functions including cleaning, engineering etc., as well as for any subcontractor personnel who may be eligible for TUPE;
10. This operator commented that it is worth considering if there are any provisions relating to the likely number of eligible staff who are actually expected to TUPE across, for example any provisions in place to restrict operators from transferring staff to other parts of their business. Such information would assist in giving a new operator greater insight when implementation (recruitment) planning and costing.
11. Depot and Assets (the following detail would depend on the LCRCA's selected approach for Depot and Vehicle provision):
- Depot space available to operate services from, including location, detailed operating costs, including power, water, tax, repairs, etc.;
 - Facilities and equipment available and any costs;
 - If the operator is to provide the depot, details of potential available sites together with clarification of approach for installation of upgraded power and charging infrastructure for electric buses;
 - Any other property, accommodation or facilities required to be provided by the operator;
 - Details of bus station departure charges if operator is eligible to pay.
12. Vehicles / Fleet:
- Confirmation whether operator or the LCRCA is providing vehicles and under what model;
 - Vehicle specification:
 - Capacity (seated/standees) and double/single deck;
 - Preferred manufacturer / model (if applicable);
 - Power – electric, hydrogen, hybrid, EURO VI, EURO V etc.;

- Any emission standards;
 - Any interior specifications (e.g., aircon, USB chargers, Wifi etc.);
 - Central doors;
 - Branding/ livery (interior/exterior).
13. This operator noted that if the LCRCA intends to provide vehicles, operators would benefit from details of which costs each party would be responsible for. Any available information concerning likely maintenance costs, miles per gallon figures and any vehicle specific expenditure required by the operator, for example who would be expected to cover refurbishment costs, battery replacement exposure etc.
14. Advertising responsibility and revenue ownership (interior and exterior). This operator commented that this can lie with the operator in other markets and they can decide to take it into account when preparing costings.
15. Details of data provision requirements as part of contract, for example if the bidder is required to install particular systems or on-bus equipment.
16. Ticketing and Technology:
- Ticketing equipment specification if to be provided by operator;
 - Any requirement for the development or inclusion of Passenger Apps;
 - Any strategy relating to integration of MaaS / Alternative Transport Modes;
 - Any specific communications equipment;
 - Any specific performance management equipment.
17. Contract terms, including:
- Sample copy of contract or outline requirements;
 - Duration, termination, liability provisions etc.;
 - Charging mechanism and inflationary approach;
 - Confirmation of farebox arrangements (e.g., whether the LCRCA is to retain);
 - Change process (for example, approach in event of material unforeseen changes to cost base – in either direction).
 - Service Level Agreements including any incentives etc.;
 - Weighting and scoring process for tender.

18. Another larger respondent operator provided the following non-exhaustive list as being the information it would expect to see:
- Initial and then ongoing consultations/market engagement sessions with the LCRCA to discuss aspirations/aims of the bus franchising model and to have an opportunity to share its comments/concerns/risks/issues/opportunities;
 - Advanced details/proposals from the LCRCA of core tender requirements, including the LCRCA's proposed asset strategy, performance regime and security requirements (i.e., performance bonds/guarantees);
 - An understanding of what pre-qualification arrangements it would need to "pass" in order to be considered for a bidding opportunity;
 - Details of the proposed franchising timelines;
 - Details of expected margins that it could achieve through the franchising process (to help operators to determine whether or not it is even worth bidding for);
 - A detailed Invitation to Tender document that prescribes, as a minimum, the following:
 - Introduction / background, main tasks and activities;
 - Details of the technical and financial proposal requirements (including insurances);
 - Scope for the proposed bus network (including detailed schedules, whilst offering up opportunities for bidders to detail potential efficiency opportunities)
 - Scope of Depot / core asset requirements;
 - Scope of technical specification and fleet requirements (including any proposed RV mechanisms);
 - Functional requirements of ITS;
 - Customer service requirements/KPIs;
 - Details of the proposed service quality / monitoring regime;
 - Recruitment / training requirements/standards;
 - Mobilisation and transition arrangements/requirements.
 - Contract terms, security/bond requirements;
 - Full detailed information on all aspects of the service to list but some commercial expectations;

- Fleet information, including:
 - Vehicles (ZEV etc.);
 - Maintenance cycles;
 - Maintenance Standards;
 - Residual value mechanism if appropriate;
 - On board equipment wifi / cctv / AV;
- Site information including:
 - Location;
 - Facilities;
 - Liability arrangements;
 - Equipment;
 - Environmental and Health and safety standards;
- Human resources information including:
 - TUPE information;
 - Schedule's agreements;
 - Minimum standards;
 - Pension liabilities;
 - Training expectations;
 - Wellbeing expectations;
- Information relating to KPIs including:
 - Metrics;
 - Performance regime;
 - Review process / frequency;
 - Reporting mechanisms;
- Network information including:
 - Mileage;
 - Frequency;
 - Route.

19. Another larger respondent operator provided the following list as being the information it would expect to see:

- Complete and accurate TUPE information including scheduling agreements in place and union agreements.
- Existing timetables and routes with mileages or proposed timetables and routes with mileages. Previous miles per gallon information by routes if using existing routes or estimates for proposed routes.
- Vehicles: Type, age, condition, mileage, extras such as air conditioning etc. Equipment fitted to vehicles and costs going forward.
- Depot: The cost for rental and costs for upkeep and utilities.
- Contractual guarantees: the LCRCA's requirements for parent company guarantees or bonds to cover supplier default.

- Cash fares procedure: this operator asked if the LCRCA will require passengers to use exact fares i.e., a no change policy, and if the LCRCA will require cash vaults on buses.
- Communications requirement on buses: the specification for real time information equipment.
- The position in relation to new vehicles during the term and the requirements along with capital costs around depot infrastructure etc.

20. Another larger respondent operator provided the following list as being the information it would expect to see as a minimum:

- Depot provision and location (if inherited from others or provided by the LCRCA), and asset condition surveys;
- Contract term and start dates;
- TUPE information compliance and information at tender stage on expected transferring employees (for example, T&Cs of staff affected);
- Vehicle specification requirements, including on-board technology; maintenance records, asset condition surveys (if vehicles inherited from others or provided by the LCRCA);
- Contract price indexation mechanism;
- Service provision specification/timetable requirements; reliability/punctuality data;
- Performance-based incentive scheme criteria assessment baselines, disclosure of assessment periods and workings;
- Penalty regime disclosure;
- Back-office data system requirements (including ticketing and retailing systems);
- Monitoring and compliance regime requirements;
- This operator noted that it would like to understand how to develop ridership (if included in performance based incentives), i.e., passenger numbers and demographics, passenger origins and destinations, passenger numbers for other modes (rail, taxi etc.), fares information;
- Customer complaint data (to understand improvement opportunities).

21. A smaller respondent operator noted that it would need the following information:

- The buses and premises that the authority supplies and related information;
- Timetable requirements;
- Equipment required;
- Rentals;
- Charges;
- Other requirements (marketing etc.);
- Performance regime;
- Overall framework;
- Levels of financial standing;
- Third party advertising restrictions (if any);
- Indexation basis;
- Contract length and extension basis; and
- TUPE application, including any pension issues.