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FAO Judith Barker, Executive Director of Place and Connectivity

29 July 2024

Dear Judith,

Bus Reform – Audit of an Assessment of a Bus Franchising Scheme

This Independent Reasonable Assurance Report (the "Report") is made in accordance with the terms of our call off contract dated 6 November 2023 (the "Engagement Letter) (under the Audit and Assurance Services Framework Agreement (RM6188)). The purpose is to report to Cambridgeshire and Peterborough Combined Authority ("CPCA" or the "Authority") in connection with its requirement for Grant Thornton UK LLP to perform an Audit of its Franchising Scheme Assessment ("the Assessment") as prepared in accordance with the Transport Act 2000 (as amended by the Bus Services Act 2017 (together "the Act"). The Report is prepared to comply with section 123D of the Act and as a result, this Report may not be suitable for any other purpose other than that set out in the Act.

Output:

A Report, in compliance with Section 123D of the Transport Act 2000, providing a statement on whether in the opinion of the Auditor:

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

Background

CPCA has recently prepared an Outline Business Case ("OBC") assessment of a Franchising Scheme, as part of its Bus Reform programme which is working to enable a Mayoral Decision on whether to proceed with Franchising during 2024.

In preparation for the next stage of this statutory process, the Authority procured Grant Thornton UK LLP to act as an independent Auditor to provide an assurance report on the Assessment, in compliance with Section 133D of the Transport Act (as amended by the Bus Services Act 2017), and section 1.77-1.87 of the Department for Transport's Franchising Scheme Guidance ("the Guidance").

The Authority issued a Notice of Intent to conduct an Assessment of a Franchising Scheme in May 2019. Subsequently, the Authority appointed Integrated Transport Planning Limited ("ITP") to provide support in completion of the Assessment. Addleshaw Goddard were also appointed as Legal Support.

In November 2023, the Authority approved the procurement of Grant Thornton as Auditor. The audit period commenced in November 2023. The version of the OBC on which this report is made is version 5.2, dated 30 June 2024.

On 27 March 2024, the Secretary of State published revised guidance titled ‘Setting up a bus franchising scheme’ (‘the new guidance’), which supersedes the previous statutory guidance titled ‘Franchising Scheme Guidance’ (‘the old guidance’). The new guidance states that any authority which had published a statutory notice of intent to develop a franchising assessment before 30 June 2021 should have regard to the old guidance, and (as far as possible given the stage of the process the authority has reached) to certain sections of the new guidance. As CPCA’s statutory notice of intent was published in May 2019, and as the Audit of the OBC was underway at the time that the new guidance was issued, our Audit has considered the Assessment on the basis of the old guidance.

Requirement overview / scope

The Authority is following the requirements of the Act, and therefore requires a suitably qualified organisation to undertake an audit of the Assessment, and to provide a report and express an opinion in relation to the areas set out in the Act (as noted below under Our Responsibilities).

The Audit is considered an important step in delivering an assessment that is as robust as possible for a future decision of the Mayor of Cambridgeshire and Peterborough on a Franchising Scheme.

The Authority has been working with their appointed contractors on the development of the Assessment, completing each of the five cases of the OBC (Strategic, Economic, Financial, Commercial and Management) and a number of additional supporting papers.

The Assessment draws on a significant level of data and information that has been made available for the purpose of delivering the Audit. In addition, discussions have been held with the Authority and its appointed contractors.

Responsibilities of CPCA

In line with our Engagement Letter, CPCA’s responsibilities in relation to this Report included but were not limited to:

- preparing the Assessment of a proposed bus franchising scheme;
- providing us with any such information as may be reasonably requested by us in connection with the preparation of this Report;
- responding to any queries raised by us and ensuring that there were appropriate resources available to respond to such queries; and
- any such other matters as may be agreed by the parties and set out in the implementation plan in our Engagement Letter (the “Implementation Plan”).

CPCA has provided us with a management letter of representation (dated 8 July 2024) confirming they have provided us with the information they believe we require in relation to the requirements of the Act and the Guidance.

Our responsibilities

Our responsibility is to provide a report and express an opinion in relation to the following areas required by the Act:

- whether the information relied on by CPCA in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality
- whether the analysis of that information in the Assessment is of sufficient quality
- whether CPCA had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

As per paragraph 1.87 of the Guidance, our role is not to report or pass judgement on the decisions taken by CPCA or the outcomes of the Assessment – our role is purely to consider the process that has been followed, the accuracy and robustness of the information that has been used in the analysis, and that the mechanics of the process have been carried out correctly. Paragraph 1.85 of the Guidance requires us to take into account the quality and timeliness of any information received from bus operators and the following criteria:

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

Where we consider that one or more of these criteria have not been satisfied, Paragraph 1.86 requires us to advise the franchising authority accordingly.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), “Assurance engagements other than audits and reviews of historical financial information”. Applying ISAE 3000 (Revised) to this engagement, requires us to conclude whether the Assessment has been prepared, in all material respects, in accordance with the requirements of 123D of the Act.

For the avoidance of doubt, our evaluation of the Assessment does not constitute a statutory audit under the Local Audit and Accountability Act 2014 nor is our evaluation of the Assessment conducted in accordance with auditing standards issued by the Financial Reporting Council.

We applied International Standard on Quality Control 1 to our work and accordingly maintained a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

- We have reviewed the documentation provided by CPCA;
- Our work was conducted in line with the Act and the Guidance under the following workstreams:
  - Process – in line with paragraph 1.87 of the Guidance, our work considered how the Assessment has been prepared and whether CPCA followed the requirements of the Act and the Guidance
  - Assessment review – this element of the work evaluated the quality of the analysis undertaken, the quality of the information used, whether the analysis of that information was of sufficient quality and whether CPCA had due regard to the Guidance
  - Base data including bus operator data – this element of the work evaluated the quality and timeliness of the information used to underpin the Assessment of whether the analysis of that information was of sufficient quality and whether CPCA had due regard to the Guidance. However we note that, due to confidentiality agreements with the operators, Grant Thornton has not been provided with access to review raw data from the operators which was used in the Assessment and has not been able to review the quality of analysis in the first stages of its processing to establish base patronage and average fares which are key inputs to the forecasting of revenue.
- In relation to the models “(Franch) - v9 June 24.xlsm” and “(EP) – v8 June 24 – refreshed (1).xlsm” we have undertaken the following procedures:
  - Calculation reviews of the Models – this element of the work evaluated the arithmetical accuracy of the analytical methods used

- Technical / Methodological / Analytical reviews of the Models – in line with the Guidance, this element of the work evaluated the quality of the analysis undertaken and the quality of the information used.

Section 123B (3) (d) and (e) of the Act requires the Assessment to include consideration of whether the proposed scheme is affordable and represents value for money. During our work we identified and collated a number of findings in relation to the Assessment which we have reported to CPCA as set out in Appendix A and which should be read in conjunction with this letter in order to fully understand the residual risks and uncertainties within the OBC as developed.

Inherent limitations

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

The procedures we have undertaken have not considered the whole internal control system in place at CPCA nor have we tested elements of the internal control system other than those used for the preparation of the Assessment which we considered necessary for us to be able to provide an opinion on the three matters required under the Act.

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

This Report has been prepared by Grant Thornton UK LLP for CPCA in line with the terms and conditions of our Call-Off contract dated 6 November 2023. For the avoidance of doubt, the terms and conditions of that engagement, including but not limited to the parties' respective liability, shall apply.

Conclusion

In our opinion, in all material respects:

- the information relied on by CPCA in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality
- the analysis of that information in the Assessment is of sufficient quality
- CPCA had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

Use of our report

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants
London

APPENDIX A - Residual Risks, uncertainties and other observations

Case	Observation	Comment
Economic & Financial	Risks to funding requirement and affordability	• CPCA's Assessment acknowledges uncertainty around costs and revenues in general terms. • Generic sensitivity tests are presented, which show how the Economic Case and funding requirement from different sources (chiefly the Mayoral Precept) would change under these scenarios. However, in our view, the Assessment does not fully reflect the downside risks that could impact the funding requirement. • The available information which CPCA has relied on for developing projections of both costs and revenues is uncertain. The Economic Case appears to be relatively resilient to this uncertainty, provided that proposals remain affordable. • Although uncertainty is to be expected in a scheme such as this, we have, however, concluded that outcomes consistent with the extremes of sensitivity testing undertaken (or potentially beyond) could occur. Decision-makers should therefore be aware of a real possibility that the funding requirement to deliver the service level assumed in the OBC could indeed be significantly higher than the central case presented (or that the assumed service level could not be delivered).
Strategic and Economic Case	Clarity on aspirational bus service level	• We note that the explanation of "proposed" service level enhancements in the Assessment document (3.39 to 3.41) is unclear. The "proposed" service frequencies in Table 3-1 are in fact aspirational. The commentary in this section then focusses on a different level of service having been "modelled" and presents an optimistic outlook towards potentially reaching the "proposed" service in reality. However, it is important to note that significantly lower, services levels than the "proposed" levels (and declining rather than increasing service levels) are what the assessment shows would be deliverable for the central case funding requirement presented. While we would not rule out the possibility of upside potential completely, this should also be taken in the context of our wider conclusions on risks to the funding requirement.
Economic and Financial Case	Operating costs	• Due to a lack of forthcoming local operator specific information, a single, average operating cost rate per km has been used (which incorporates depreciation on vehicle capital costs) throughout the Assessment. Although this England average for local bus services in non-metropolitan areas has been adjusted for the known cost of those services that are currently local tendered services, this is otherwise based on a national average. Significant uncertainty therefore remains about whether this rate is relevant for the CPCA area and especially whether it will prove to be accurate either under franchising or in respect of procuring additional service milage. Although the conclusions from the Economic Case may be relatively resilient to this (since some of the base uncertainty impacts on all scenarios including the Do-Something), this does impact on the overall risk around funding requirement / level of service. The key issues are that: ○ The analysis that forms the base year position for cost and revenue modelling does not fully reconcile, showing an unexplained funding deficit of around £3m per year, equivalent to a reduction in operator margin from 7.5% to around 2.5-3%. Together with wider uncertainty about operators' profit margins in the base year (and relatively higher confidence in the assessed

		revenue), this appears to illustrate the uncertainty around the assumed average cost rate per bus km. ○ The rate may not fully reflect the implied reduction in average fleet age in the proposals, and assumes that the depreciation life of an electric vehicle (including its battery) is the same as that of a diesel vehicle. ○ It has been assumed that the average cost per kilometre would apply equally to incremental mileage costs (i.e. additional bus mileage proposed as part of franchising). CPCA has stated that additional mileage tends to be peak-oriented, which suggests incremental costs may be at a higher rate. We also note that there is uncertainty about the relationship between bus operator size and cost efficiency (although CPCA claim that there are likely economies of scale for smaller operators should they increase their activity) as well as the ability of the labour market to deliver trained and skilled staff for bus operation in a timely manner. • Commercial risks of the franchising proposition could result in higher pricing being realised from the market. While the Management Case identified the risk and proposes management measures – chiefly depot provision as an incentive to new entrants or local smaller operators – at this stage, there remain some risks around the cost of these measures (see other observations below) as well as uncertainty about their effective delivery.
Economic and Financial Case	Reliability Benefits	• We note from sensitivity tests that the largest component of passenger benefits (48%) is assigned to reliability improvements incentivised by the quality incentive regime. Whilst we deem the assumptions for this quantification to be reasonable, we note that these rely on high-level assumptions informed by a single benchmark at TfL (noting that a conservative interpretation of that benchmark has been made). The strength of the franchising case is largely reliant on these benefits, the realisation of which would be dependent on a range of risks and local factors. We also note that the mechanism to realise the assumed proportion of benefits in the EP scenario has not been defined, and therefore inclusion of these benefits in the EP scenario appears potentially conservative for the Franchising Case relative to EP. As these assumptions on both Franchising and EP cases feed into revenue forecasting, they also impact on the overall risk to funding requirement / affordability.
Economic and Financial Case	Baseline forecasting and factors contributing to declining patronage	• The baseline bus patronage forecasting approach focusses on population/development growth and fares impacts and it is not clear whether the forecasting reflects all factors that could influence patronage into the future. Because the Do-Nothing scenario assumes that the existing bus service level would continue to be provided (with an increasing level of subsidy requirement from CPCA), the modelling approach does not incorporate a link between financial sustainability and bus service provision. It is therefore not possible to see whether the spiral of decline in bus patronage observed historically would be fully replicated and it is possible that other significant factors may have been omitted from the modelling. For example, no allowance has been made in the forecasting for worsening of average bus journey times into the future, while the OBC itself explains that:

		“The Do Nothing or business as usual scenario is likely to be characterised by a continued decline / stabilisation in patronage. This is likely to be accelerated as road conditions and congestion further deteriorate.” • This example may also raise an issue of consistency with regard to operating cost increases where, during our review, evidence has been provided that a significant portion of the assumed rate of operating cost increase is attributable to worsening of journey times. A sensitivity test undertaken by CPCA’s advisors shows that the Mayoral Precept could need to rise by 31% to £102 pa by the end of the appraisal period if a 1% per year increase in journey times were to occur. We would note that it is not clear whether the elasticity employed for this sensitivity test would be applicable for long term change in journey times alongside worsening of road traffic congestion and may overstate the impact in this context. Nevertheless, these assumptions on patronage growth do feed into revenue forecasting and may also impact on the overall risk to funding requirement / level of service.
Financial	BSOG	• A significant forecast income assumption relates to the assumed levels of BSOG within the financial case. The BSOG rates according to government statistics are unchanged since 2014. However, CPCA has assumed annual increases to BSOG from 2025 to the end of the assessment period. • We believe there is limited evidence to support this assumption and therefore has the impact of overstating the level of BSOG within the financial model and accompanying business case. • Calculation of the impact of this figure suggests that, over the period 2027-2054, BSOG revenue for both the franchising and EP cases is overstated by c.£36m – equivalent to c.£1.3m per annum. This represents a potential significant deficit that CPCA would need to meet from other sources.

Financial	Mayoral Precept	• The value of the Mayoral Precept is a key driver of the funding of the business case, providing £110m from the existing £12 levy and £696m of additional funding based on projected increases towards the franchising case over the period 2025 – 2054, and £645m to the EP case. A key assumption driving this value is the assumed size of the Council Tax base.
		  ○ In the financial modelling, CPCA has assumed an annual increase of 2% in the Council tax base. However, recent statistics indicate an annual increase of 1.74%.
		  ○ This difference in assumption could reflect an overestimation of the potential precept by as much as £39m in the franchising case, and £37m in the EP case.
		• This reflects a significant extra level of funding that CPCA would need to secure in order to continue the level of bus services at desired levels.

Financial	Transport Levy	• A key assumption is that a significant proportion of the bus budget will be met through the Transport Levy. This is forecast in the Franchising Case to rise at 2% every year, with the exception of 2025 and 2026, when a 4% increase has been assumed. ○ The assumption is that the Transport Levy will continue at the 2023 base level of the transport levy, plus inflationary uplifts over the remainder of the evaluation term.

		While we understand that the Combined Authority has the legal powers to set the Transport Levy to meet its transport costs, the business case has not considered potential downside scenarios in respect of this Levy, and the impact they could have on the affordability of the business case. • Were annual increases not to apply, this could have the impact of increasing the funding requirement from other sources by c.£187m over the 30 years of the modelled business case.
Economic	Use of car traffic data to annualise bus patronage base data	• We understand that the economic case uses traffic data to act as a proxy for bus patronage in this respect. This information therefore does not appear to be directly relevant to the purpose for which it is used. Seasonal and other impacts could mean traffic data and bus patronage do not always correlate well with one another meaning the use of traffic data to act as a proxy for bus patronage could at times be inappropriate. For example, during winter months people may be more likely to use a car than take the bus or walk, meaning traffic data could show an increase in use without there being a correlated increase in bus patronage. However, additional evidence presented to us during the course of the review, whilst limited in scope, shows that this approach may slightly under-estimate annual bus patronage and therefore is unlikely to be material to the economic appraisal outcomes and the decisions based on them.
Economic	Uncertainty about bus loading and capacity	• The Assessment does not appear to confirm whether the projected bus patronage growth would result in capacity constraints during peak periods under the assumed bus service levels. Although some additional analysis has been prepared during the review period, we consider there to be some uncertainty about this point.
Economic	Reflection of impacts from East West Rail project	• We note that the economic case assumes the East West Rail project will have only a minimal impact on bus patronage and future bus service design and that due to the limited information available when the Economic Case was drafted any future benefits from the scheme have not been modelled in detail. We understand that should rail investment planning progress in the Cambourne-Cambridge corridor then the scale of bus investment can be adapted.
Economic	Delivery of bus priority assumed in Do-Nothing scenario	• We understand that the status of bus priority schemes assumed in the Do-Nothing scenario is that funding has been allocated subject to business case and that work on business cases is ongoing. • We would therefore suggest that the validity of the Do-Nothing scenario in this respect is kept under review in case commitment to these schemes comes under question.
Economic	Bus priority infrastructure	• We note that the bus priority infrastructure included within the proposals are currently a net detriment to the assessed economic net present value within the current analysis. As the impact on both EP and Franchising cases is of a broadly similar scale, however, this seems unlikely to be material to the main conclusions of the analysis in favour of the Franchising approach. Within the current analysis, the assumed capital costs significantly exceed the appraised user benefits. Moreover, adverse impacts on other road users do not appear to have been incorporated into the analysis and we note from separate information provided (document 46) that the value of total disbenefits to other road users is estimated at more than £130,000 pa which would appear to exceed benefits to bus passengers estimated by CPCA of around £570,000 PV. To be less developed than the included analysis of user benefits, this would imply that,

		across the life of the investment projects, road users could be worse off even before the costs of measures are considered. We understand that CPCA has not been able to fully evaluate schemes at this stage. This investment programme would therefore require further bespoke business case analysis in due course before proceeding with specific infrastructure development.
Economic	Values of time	• We have concerns that the value of time used is not well-evidenced (para 3.149) and appears high when compared with official TAG values. This reflects an assumption which has a CPCA bus commuting journey purpose split of 40% as set out in Table 310. However, we accept that the sensitivity test of -25% in the value of time, as shown in Table 3.20 of the Assessment, represents a reasonable downside test and that on its own it would not change the conclusions of the Assessment. We therefore do not consider this matter alone to be material and are content to report it as an observation.
Economic and Financial Modelling	Transparency of the Models	• The Models include several elements that reduce their transparency, such as hardcoded numbers within formulas, links to external sheets, and legacy inputs and calculations. This limits the ability of a user to review and understand the Models.
Economic and Financial Modelling	Documentation of inputs and calculation approaches in the Models	• The Models contain several inputs and calculation approaches that are not fully documented. Proper documentation is crucial to the credibility of the Models and the assessment they support. Without clear and complete information about the inputs and calculations used, it is difficult to assess the accuracy and reliability of the results. Additional supporting documentation would provide greater confidence in the assumptions. However, we have not identified any adverse implications of this for the modelling supporting the economic case as it stands. CPCA may wish to consider whether improved documentation could mitigate any risks around model use and understanding at future stages.
Economic and Financial Case	Procurement Costs treated as a one-off cost	• We note that additional CPCA costs to run the franchise tendering process after the initial round of procurement are deemed to be included in background staff levels. However it is unclear how the opportunity cost of the likely significant CPCA effort to relet franchises periodically is reflected. These assumptions impact on the overall risk to funding requirement / affordability.
Economic and Financial Case	Longer operating hours	• We note that the impact of longer operating hours is assessed using a headway elasticity and the relevance of this assumption is not clear. The impact of this accounts for 12% of passenger benefits. Whilst we acknowledge that longer operating hours will produce an economic benefit and induce some additional demand, we are unable to conclude whether this analytical approach would lead to an overestimate or underestimate of benefits. • In our view it does not appear likely that this would materially influence the comparative performance of the options assessed. As these assumptions on both Franchising and EP cases feed into revenue forecasting, they also impact on the overall risk to funding requirement / level of service.
Financial	Depot build costs	• The business case has assumed a Build Cost for a depot of £6.8m. This has been estimated by deducting the assumed land cost of the Warrington depot from the total costs of the depot, inferred from the Warrington Worldwide newspaper article. However, the basis on which the land cost of £3.2m has been

		estimated is by assuming that, because Peterborough and Warrington have the same (in 2019) cost for industrial use per hectare of £800k, and the forecast total land cost for the Peterborough depot is £3.2m, then the Warrington depot land cost is also £3.2m. • As such, in making this assumption, there is a significant risk that the Depot build costs may have been over or under stated – as the assumption is that the build costs for all three depots (including Cambridge) is comparable. However, we do note that CPCA have include optimism bias within their assessment of capital costs, which does allow for an element of the uncertainty which is present in the estimate.
Financial	Risk quantification	• Paragraph 1.62 of the franchising guidance includes, amidst other requirements "a summary of the key financial risks, particularly to any forecast income to the authority and including any quantified impacts and high level mitigation plans; and a sensitivity analysis, reflecting the range of financial risks". • While risks relating to depots and complementary capital costs have been identified, no potential quantification of these has been undertaken, other than including an allowance for optimism bias within the cost estimate.
Financial	GDP inflation assumption	• Within the financial modelling, CPCA have used GDP as an inflation factor for the majority of revenue and cost lines. It is unusual to see GDP used in this manner, with CPI or RPI seen to be the norm. Given this, CPCA undertook a sensitivity analysis, replacing the GDP inflation assumption with CPI. Although it is noted that CPCA made no amendment to the period 2024-2027, from 2028 the assumption was changed from 2.30% per annum to 2.00% per annum. The impact of this was to indicate that, were CPI to be used as an inflationary assumption, the total funding gap over the project life (using the Franchising scenario as an example) would reduce from £690m to £621m – a reduction of £61m. • This provides some degree of mitigation of the uncertainties raised elsewhere in this document regarding the assumed costs within the scenarios. Were future inflation to be more like CPI than GBP, this would have a net financial benefit on the position of the franchising scheme.
Financial	Financial Case sensitivities	• The sensitivity analysis in the Financial Case exposes potential risks associated with the assumptions in the franchising case – particularly regarding fare revenue and operating cost assumptions, which could pose significant affordability challenges for the Authority. • We note the simplistic approach to addressing negative impacts in the modelling through changes in the level of Mayoral Precept. This limits the usefulness of this analysis and does not allow for detailed consideration of alternative measures to address affordability pressures – through a targeted cost reduction program aimed at removing poorly performing network services.
Management	Increased labour demand	• An appropriate approach has been taken to assessing the costs associated with increased level of resource required to deliver the options under consideration: specifically, industry benchmarking and an assessment of current roles within CPCA has been used.

		• However, as further noted in our discussion of the Economic Case of the Assessment in this letter, we note that no allowance appears to have been made for the likely cost rate impacts of the increase in demand for labour implicit in the proposals.
Management	Consultancy support	• Some allowance has been made in the costs set out in the Management Case in respect of external consultancy support to CPCA for delivery of the options. • However, limited specific information is provided in the Assessment regarding the activities that will be delivered through this consultancy support, and there is limited evidence to demonstrate that the costs assumed are appropriate.
Management	Commercial proposition	• Overall, while approaches appropriate to Outline Business Case level have been taken to develop the Management Case and to develop the costs set out in it that are reflected in the Financial and Economic Cases, decision-makers should note the overall commercial proposition for the franchising option is not yet fully developed, and further note that further development of the commercial proposition may lead to second-order changes to the management approach required for the options which may increase resource requirements and, consequently, costs.