APPENDIX A - Residual Risks, uncertainties and other observations

Case	Observation	Comment	CPCA's response
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).	• CPCA acknowledges that as franchising progresses, more detailed cost and revenue estimates would be undertaken, in collaboration with operators who would be able to provide the most up-to-date data. This is a prudent next step, building on the robust analysis already detailed at the stage of the Assessment. • In addition to showing how funding requirements from different sources would change, the sensitivity tests in the Assessment show how CPCA might respond. The Assessment shows that CPCA could (if required) reduce the proposed level of service so that the cost of providing those bus services remains within the proposed affordability envelope. • It is accepted that in sensitivity models, a level of uncertainty is provided for, but more extreme events could occur, and such events could represent a downside risk beyond these that are modelled in the Assessment. These events would affect all options (including the reference case), and therefore be unlikely to change the conclusion of the Assessment. • Under franchising, CPCA would have full control over the level of service. Therefore, any downside risks could be mitigated by reducing the level of service or enhancing income generating activities or a combination of the two. However, decision makers should judge whether such risks are more likely under franchising than within a low investment Enhanced Partnership (EP). If risks are equally probable for both franchising and the EP option, then franchising is still likely to represent high value for money (compared to the EP option and the reference case), even in the event of significantly reduced level of service, provided that the status quo had an even lower level of service. • It is important to note that affordability becomes more challenging after c. 15 years; and projections for that time period are by nature more uncertain for all scenarios modelled.
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	• As the Assessment document shows, there is a gap between the top level desired and the proposed level of service, due to affordability constraints. CPCA believes that it is important to demonstrate the top level of service it aspires to for different types

		"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. .	of services, in line with the ambitions of the National Bus Strategy and the Cambridgeshire and Peterborough Bus Strategy • Nevertheless, CPCA accepts that it will be challenging to achieve the highest aspirational level of service within its affordability envelope, under current known national and local funding streams. • As franchising progress, CPCA will act transparently and clearly communicate the anticipated level of service. • Service levels proposed in the medium investment franchising and EP scenarios would remain above the current status quo network, but the exact level for any particular service could vary by service category.
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.	• The estimate of bus operating costs has primarily utilised information available to the authority at the time of the Assessment. It uses established DfT data sources for the most recent publication and most relevant geographical area. This is further refined by the inclusion of a local cost figure derived from existing actual tendered service contract costs. This aims to reflect a network wide estimate of commercial and supported service costs. It should be noted that the tendered service contract costs cover examples from the majority of operators in the region. • Initial years of the assessment period include those influenced by post-pandemic travel patterns, to which the market is still adjusting and at the time of the assessment bus operators have been in receipt of government financial support. Therefore, it is understood that some short-term reduction in profit by bus operators is possible, and as such the small (<4%) variance in base year financial position is not considered material. It is also well within the range of sensitivity tests that are presented in the Assessment. • While it is acknowledged that there is some uncertainty around the long-term operation costs of battery electric vehicles, particularly battery degradation / life, the assumptions included in this assessment are based on recognised sources, such as the DfT's Greener Bus Model and cost proportions from published Business Case Assessments from other CAs using operator sourced data. • Development work on new generation batteries for electric buses is continuing at pace but has not progressed sufficiently for the anticipated progress to be included in the Assessment

		○ 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.	• CPCA acknowledges that achieving reliability improvements is key to the success of franchising. CPCA is expecting that TfL's experience, where reliability improvements were achieved through Quality Incentive Contracts, can be replicated in the CA bus market, albeit tailored more to the local region. Nevertheless, CPCA will continue to explore more levers to deliver reliability benefits, including through the investment in bus priority measures, and advanced IT systems. In addition, integrated timetable planning under franchising will be undertaken with reliability in mind. • It is important to note that passengers place a high value on the reliability of bus services. This is reflected in the DfT's Transport Appraisal Guidance which assigns a factor of 2.5 to reliability improvements (i.e., passengers perceive one minute of lateness as 2.5 minutes of journey time). That is the technical explanation for the large share of reliability benefits. It also means that even modest improvements in reliability could result in substantial economic benefits.
Economic and Financial Case	Baseline forecasting and factors	• 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	• CPCA notes that there are many factors that may influence demand in the longer term; as such, it is not possible (nor appropriate) to capture them all within the modelling for this Assessment. External

	contributing to declining 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.	factors, such as car ownership and running costs, average wage, employment rates, for example, are likely to influence long term bus demand in each of the reference, EP and Franchise cases. Therefore, each would have only limited impact on the comparative economic performance of the options. • It is noted, however, that demand forecast remains uncertain and therefore CPCA would introduce franchising gradually, and in accordance with the outcome of the consultation. It would study the impacts of the intervention carefully as it progresses and would adjust the plan as needed (in accordance with relevant legislation). • It is important to note that any worsening of highway journey times is highly likely to impact the comparable car/van/taxi journey and therefore mitigate a number of the impacts of mode shift with regard to bus journey times. • While 1% per year increase in journey times was modelled, it is considered a low likelihood scenario. It relates to data which was observed in 6 large urban metropolitan areas in the UK (the smallest of which being Hull), over the 30-year period ending with the COVID-19 pandemic. If such a 1% scenario did materialise, CPCA has the power to reduce the level of service such that precepts would increase by a reduced amount as a balance is struck between cost and service frequency.
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	• There has been some speculation regarding the future of the BSOG since the issue of the bus franchising policy in 2017 by the previous government. During the COVID-19 pandemic and for a period afterwards the BSOG was supplemented by the DfT's Bus Recovery Grant (BRG). While the BRG has been withdrawn, little was been done by the DfT to remove the BSOG. CPCA believes that while the BRG was available, there was little need to increase the BSOG as it was easier to push additional funding through the BRG. Following the withdrawal of the BRG, CPCA believes that it is a reasonable assumption to believe that the BSOG will continue to be provided by the DfT and that the BSOG will be used as a tool to

		represents a potential significant deficit that CPCA would need to meet from other sources.	increase the funding to bus operators under an EP (where there has already been a strong push from bus operators for increased BSOG funding) or the franchising body in the case of bus franchises. • CPCA will continuously monitor its financial position to ensure that it has sufficient funds to provide bus services.

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.
			• The average taxbase increase over the prior 5 years has been 3,997, however the average number of dwellings forecast for completion within the strategic sites averages 4,105 for the first 20 years. Including delivery of homes outside of strategic sites will increase this further, indicating higher council taxbase growth during the period.
			• Beyond the currently identified sites, the previous government published the 'Case for Cambridge', which anticipated delivering an additional 150,000 homes by 2050, an average of more than 5,000p.a. in the Cambridge alone. While the status of this publication was uncertain even before a new Government was elected, the new Government's manifesto pledged to substantially increase housebuilding across the country so the national political will indicates future housebuilding will accelerate.
			• A change of £39m over the 30-year case is a 1.3% increase in the total cost of the network, and substantially smaller than the modelled sensitivities. In practice the Combined Authority calculates its council tax requirement on an annual basis, taking into account up-to-date forecasts, so has the ability to adjust the required precept to counteract a reduced taxbase – an increase of less than £2 in the precept across the period would be required to mitigate this change.

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.	• As the Transport Levy is within CPCA control, CPCA considers that this is a realistic financial lever with local democratic control which could be used where appropriate. CPCA notes that in theory it would be possible to increase the Transport Levy by more than that forecast in the Franchising Case if required and so have taken what is considered to be a prudent set of increases. Given the level of control available to CPCA, CPCA does not consider it necessary to consider downside scenarios in regard to the transport levy.

		○ 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.	• It is noted that there are seasonal impacts on bus patronage. The data available at the time of assessment did not include a full 12 months of comparative data – as these were influenced by post-COVID-19 pandemic travel patterns and the government £2 fare cap, meaning it did not reflect solely seasonal impacts. The traffic data used as a proxy for travel demand more generally reflects the likelihood of people travelling in the region in a particular month. It also provides a five-year average which helps to 'smooth' any short-term impacts and provide a more rounded picture. This was benchmarked against two sources. Firstly, bus patronage data from a local operator indicated a potential underestimate of annual levels in the modelling. However, this was a small sample relative to bus patronage in the entire CPCA area. It was not included in the final assessment results to ensure a more robust assumption.
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.	• CPCA believes that the capacity assessment included to support the audit is of sufficient detail for the current stage of work and the purpose of the modelling and business case to determine the preferred way forward for CPCA. It provides a review of average vehicle occupancy based on estimated passenger miles and network vehicle miles to illustrate a similar pattern to national average levels, which provides validity and robustness to the patronage forecasts. CPCA acknowledges that the model was not designed to assess individual route nor individual vehicle occupancy throughout the day / week. In all scenarios (EP, franchise and do nothing) it is assumed that operational control and organisation will maximise the ability to plan and design operations to ensure that adequate supply is provided to match demand. This may mean redistribution of fleet across the network to support peak

			flows. The model estimates an overall network mileage which captures costs of operating vehicles, but these would not have to be operated in specific areas and could be adjusted over time to meet future demand patterns.
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.	• At the time of writing the relevant portion of the East-West Rail (EWR) project is in the first, pre-application stage of DCO (July 2024). This means that there is limited detail available which could be used to define with a sufficient degree of certainty any relevant rail patronage which could inform long-term changes to patronage in the bus reform assessment. Given that there is no confirmed commitment to funding, nor clear timescales published for the delivery of the eastern end of the project, it was not appropriate to include any assumptions on EWR at the time of assessment. The future progress of EWR will be monitored by the CPCA team should more definite information become known.
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.	• CPCA notes that the assumption on 'do nothing' schemes altering transport conditions is subject to timely delivery of the projects. The most up to date information from published sources was used at the time of assessment. It is noted that the observation does not identify any adverse implications in respect of the assumption, only that the authority should continue to review any scheme developments and funding commitments.
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	• It is acknowledged that not all the costs and benefits of the investment in bus priority measures are included in the Assessment, and that the exclusion of such an investment does not have a material impact on the conclusion. • A full analysis of the impact of bus priority measures would be a lengthy and costly exercise, due to the lack of readily available analytical models to estimate the reduction in bus operating costs and improved reliability. Therefore, analysis was only undertaken to estimate the benefits to bus users from small savings in journey time. In parallel, an estimate of the potential disbenefits to other road users was prepared, to provide a benchmark against which CPCA will consider investment in bus priority measures. • Nevertheless, according to bus operators, academics, and passenger groups, bus priority measures are critical to the improvement in bus services. Therefore, CPCA believes that it is

		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.	important to commit to bus priority measures, whilst acknowledging that further work is required to account for the impacts on bus operation, passengers, and other road users.
	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.	• The value of time applied to the estimation of economic benefits uses the standard TAG value from Table A1.3.1 for Commute, Other and Business users. These are weighted based on estimated proportions of journey purpose, reflecting the high rate of Park & Ride, busway and city services (which carry c. 50% of passengers). • While the sensitivity test was undertaken to acknowledge the limited available evidence within this estimate, as both EP and Franchising cases use the same weighted value of time, the resulting impact does not affect the decision between the two 'do something' options.
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.	• CPCA notes that this observation does not identify any adverse implications in respect of the model, only that there may be future benefits in continuing to update and maintain good practice within the modelling; as such this does not affect the outcomes of the Assessment.
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.	• CPCA notes this observation does not identify any adverse implications in respect of the model, only that there may be future benefits in continuing to develop our management of documentation, as such this does not affect the outcomes of the Assessment.
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.	• The retendering of franchises after the initial round will be conducted by CPCA staff as part of their future established business-as-usual operation. The first time a contract is awarded, there are additional steps which need to be undertaken including establishing tender review processes and putting in place the initial support functions which are then in available for subsequent refranchising rounds. For these reasons certain costs are allocated to the initial contract letting procedure but not subsequent ones.

			CPCA would closely monitor the procurement approach to the initial tender process to inform future retendering.
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.	• The observation refers to the lack of specific evidence in relation to the effects of operating hours on patronage, resulting in a lack of specific elasticity to apply in the assessment. However, an alternative elasticity was used from research on the impacts of headways. Whilst this is not specifically for operating hours, the resultant impact is in line with other methods that use bus km as a proxy for both operating hours and service frequency. CPCA notes that this observation does not identify the direction of the uncertainty (i.e., the analytical approach could result in an overestimate or an underestimate). Financial sensitivity tests and cost management measures have been used to help understand suitable approaches that CPCA could use to respond in case of a downside risk.
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.	• It is usual at this stage of development for there to be uncertainty over major capital project costs. To address this uncertainty, CPCA have added a 46% optimism bias to the estimate. Additionally, CPCA undertook a sensitivity test where the level of borrowing for capital projects is £9m (28%) higher than the level assumed with optimism bias. The result showed no material impact on the level of precept required or the affordability of the franchising proposition.
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".	• As section 5.108 in the OBC reports, CPCA tested the impact of a 22% increase in capital costs, in addition to 46% Optimism Bias, on the franchising affordability assessment. The result showed that the impact could be absorbed by the reserves that are already planned for the franchising scheme with no required increase in precept.

		• 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.	• CPCA accepts that if costs were to rise by 2%, instead of the modelled 2.3%, they would be significantly lower over the assessment period. If this was the case, CPCA would manage the outcomes in a prudent matter, which could include proposals to reduce the mayoral precept or provide additional services for passengers.
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.	• The DfT's Franchising Guidance asks authorities to produce high level mitigation plans when addressing sensitivity tests. CPCA has done this by demonstrating that the level of mayoral precept would need to rise alongside changes in levels of service. It is accepted that further work would be needed to assess which service(s) would be amended to achieve cost reductions. As part of the assessment, CPCA will consider the financial and the social impact of amending service levels and share the rationale behind changes to service levels.
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.	• CPCA considers it is unlikely that any increase in staff requirements would materially distort the labour market as suggested in the observation. However, CPCA would continue to ensure the appropriate skills and resources were in place in future and adapt its approach as necessary.

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.	• CPCA will conduct further detailed work on the range of tasks, and which would ideally be conducted by CPCA officers, and which would require specialised consultancy support. In addition, CPCA expect to provide training and development to its staff over the life of its franchising proposals. An initial budget to factor this in has been set out in the Management Case.
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.	• CPCA agrees that the proposition will continue to be developed through an iterative process over the coming years (together with taking account of responses to the public consultation process). It will ensure that resource requirements are kept under review during that process.