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Success factors for contracting and awarding bus franchising in Wales

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October 2025

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Contents

Summary

- This report synthesises key findings from a series of outputs exploring practice-based and academic evidence on international practice in contracting and awarding bus services. It was commissioned by the Welsh Government and Transport for Wales (TfW) to inform the Bus Services (Wales) Bill and support forthcoming implementation decisions in the rollout of bus franchising in Wales.
- The Wales Centre for Public Policy (WCPP) hosted evidence 'spotlight' sessions with eight international transport authorities, complemented by expert-authored think pieces on a range of policy challenges associated with bus franchising.
- Key findings emphasise that franchising success in Wales will depend not on replicating existing models wholesale but on adopting a pragmatic, context-sensitive approach. Effectively managing Wales' transition to bus franchising requires building TfW's competence as a regulator, allocating sufficient resources, and engaging operators to harness their commercial knowledge. Also essential is the development of a collaborative model with strong and adaptable governance, including trusted partnerships with operators, clear and flexible contracts, and robust data systems.
- Spotlight sessions on key policy challenges highlighted the benefits of coordinating a multi-modal approach to network and service planning that can effectively tackle transport poverty and serve rural communities. Experts also underlined the potential of bus franchising to contribute to reducing transport sector emissions by focusing on making bus travel more attractive to encourage modal shift, alongside developing partnership approaches to the net zero transition for bus services.
- The series highlighted a range of findings on contracting and awarding. The contract is a critical component of any bus franchising model and a key mechanism for steering the market to achieve transport policy ambitions. Experts emphasised the importance of contracts that are clear, pragmatic, and adaptable to evolving conditions rather than overly prescriptive, stressing the need to work with operators to allow the right model to develop over time.

- Developing an effective bus franchising model involves many interconnected decisions about the contract and procurement procedure. Transport authorities shared detailed insights on each of the key choices involved, outlined in part 2 of the report and summarised in the conclusion.

Importantly, experts highlighted that many of these choices involve trade-offs that must be weighed against overarching transport policy priorities while ensuring coherence in the overall approach to contracting and awarding

Introduction

The Bus Services (Wales) Bill, introduced to the Senedd in March 2025, marks a fundamental change in how bus services are planned and delivered in Wales. It proposes replacing the deregulated model introduced by the 1985 Transport Act with a 're-regulated' system, giving Welsh Ministers and Transport for Wales (TfW) the power to design and commission networks of bus services across the country. The Bill proposes placing a duty on Welsh Ministers to:

- identify and plan what local bus services are required to provide safe, integrated, sustainable, efficient and economic transport in Wales; and
- secure the provision of these services through a range of mechanisms including permitting, direct provision, and local bus services contracts, otherwise known as franchising.

Under franchising, bus services will no longer be operated solely at the discretion of operators in a deregulated commercial market. Instead, TfW will be tasked by Welsh Ministers with determining which services are needed, where and when they run, and to what standard. Operators will be contracted to deliver these services via a competitive procurement process. In light of wider Welsh transport policy ambitions, such as One Network, One Timetable, One Ticket run by One Team (Welsh Government, 2022), the Welsh Government has proposed a 'gross-cost' franchising model in which TfW collects fare revenue and carries the associated revenue risk, while operators receive a fixed fee to run specified routes.

This marks a shift from a deregulated system, where bus companies decide routes based on commercial viability, to one where services are planned to meet broader social, environmental and economic objectives, and autonomous market entry is legally restricted. This 're-regulation' is seen as essential for delivering a coordinated, reliable and accessible network that better serves communities, reduces emissions, and integrates with other modes of transport (Welsh Government, 2023a). Bus services in Wales have faced declining ridership, service cuts and limited connectivity after decades of deregulation. The move to franchising is viewed as vital for improving value for money and addressing market failures that have left many communities with inadequate public transport.

Bus franchising is an established model for public transport delivery worldwide. Many regions, including parts of Europe, adopted competitive tendering as the default approach to bus services in the 1980s and 1990s. In the UK, other devolved and regional governments, such as Greater Manchester and Liverpool City Region, have secured franchising powers to reform their local networks. Expert Think Pieces published alongside this report offer

additional context on the development of contracting and tendering arrangements across Europe, Australia and elsewhere.

In the UK, 'bus franchising' refers to a contracting model in which potential operators bid for the exclusive right to provide services on specific routes. This is described as 'competition for the road', in contrast to the 'competition on the road' seen in a deregulated commercial market. In this report, we use 'bus franchising' to describe developments in Wales and the UK more broadly, but otherwise use 'bus franchising' and 'competitive tendering' interchangeably.

Policy context

Bus services are essential for the 19.4% of households in Wales without a car and account for 75% of public transport journeys in Wales (Welsh Government, 2025). Bus franchising is seen as central to a wider reform agenda and to achieving Welsh policy ambitions to tackle poverty by increasing access to job opportunities, in-work progression, education and training, and childcare. Using bus franchising to benefit rural communities with limited transport options will be important for meeting net zero targets and achieving the goal of 45% of journeys made by public transport or active travel by 2040, as set out in Llwybr Newydd (Welsh Government, 2021a). Key international experts highlight how:

> **A well-designed and well-used public transport system is the backbone of any transport policy aimed at promoting sustainability, reducing environmental impact, and contributing to the net zero agenda (Mulley and Nelson, 2025a: 2).**

The UK's current deregulated model of 'competition on the road' is an international outlier. A recent literature review notes that, in most cases worldwide, bus services are either delivered directly by public bodies or via 'competition for the road', known in the UK as franchising but more commonly elsewhere as competitive tendering' (Johnson, Nash and Smith, 2024). In Sweden, reforms in the 1980s expanded service supply by 20% and increased bus patronage by 30%, while in Norway, reductions in operating costs were reinvested into better services (Johnson, Nash and Smith, 2024). However, while franchising has been shown to enable more integrated planning and the cross-subsidy of less profitable routes, it can also hinder innovation if service specifications are overly rigid.

The contracting framework is widely recognised as a critical factor in successful franchising. Most franchising models use a gross-cost contract or a net-cost contract. Gross-cost contracts, where operators receive a fixed fee and the authority retains fare revenue and associated risk, are considered effective for supporting network integration and allow greater public control over the network, including the power to set bus fares. In contrast, net-cost contracts pass revenue risk to operators along with greater freedom to shape the network,

which can encourage commercial innovation but create barriers to integration (White, 2017). In any franchising model, experts stress the importance of contract flexibility, aligning operator incentives with policy objectives, and ensuring that contracts can adapt to technological changes such as the shift to zero-emission vehicles (van de Velde, 2014; White, 2017; Hensher, 2020).

Our approach

Given the scale and complexity of Wales's proposed shift to bus franchising, a strong evidence base is essential. Our principal research questions were:

- In bus franchising, what practices or features of contracting and awarding show promise in achieving desired quality improvements and policy outcomes whilst delivering value for money?
- How can contracting, including incentives, help to enable: modal shift by increasing bus patronage; Net Zero 2050; transport integration; and transport poverty reduction?

To examine these, WCPP hosted a series of eight closed-door 'Spotlight Sessions' with Welsh Government and TfW officials between March and May 2025. These included five practice-based case study spotlights and three policy challenge spotlights, drawing on both academic and practitioner expertise. The spotlights informed the key findings of this report and were supported by two types of evidence submissions, published alongside this document.

While session materials and discussions followed Chatham House Rules (Chatham House, n.d.), contributors are cited where consent was given or material was drawn from publicly available sources.

Practice-based case study spotlights

These five sessions featured evidence from eight transport authorities (six international, two UK) selected for their relevance to the Welsh context and potential for transferable learning in key areas, such as supporting rural operators, integrated public transport systems, and maturity of approach to gross-cost contracts. Contributors provided a presentation and a high-level case study snapshot outlining their franchising model, contracting approach, and

lessons learned. Although a wider range of bus franchising models exists globally,[1] this project explored submissions from:

1. Trasport section of the Infrastructure & Environment Department, **Jersey**
2. National Transport Authority (NTA), **Ireland**
3. Ruter, public transport authority for **Oslo and Akershus**, Norway
4. Västtrafik, public transport authority for **Western Sweden** (Västra Götaland), Sweden
5. Land Transport Authority (LTA), **Singapore**
6. Translink, transport authority for **Queensland**, Australia
7. **Cambridgeshire & Peterborough Combined Authority,** UK
8. **Liverpool City Region Combined Authority**, UK

As the case studies and expert contributions underpinning this report will show, there is no single 'right way' to implement bus franchising. However, recurring themes and success factors emerge across different models and are highlighted in the Key Findings section of this report. To support structured comparison, we used the STO Framework (introduced in more detail on p. 14) to analyse governance and key dimensions of contracting and awarding across cases.

It is important to note the key limitations of our approach to adapting this framework. Although the template circulated to contributors was adapted and created in collaboration with the framework author, transport authorities self-reported and provided responses that underwent only minor editing and had to fit within a concise format. The case study snapshots should therefore be seen as an interpretation of the framework, rather than an exact reflection of it.

Only seven of the eight cases are published alongside this report. The Translink (Queensland, Australia) snapshot, which captured their multi-faceted approach to bus franchising, will remain unpublished, but has informed key themes and learnings. Only publicly available information about Translink's tendering approach is referenced in this report.

Policy challenges spotlights

Three Spotlight series sessions focused on broader policy challenges linked to franchising. These included: increasing bus patronage; encouraging modal shift and supporting wider

[1] A wide range of practitioner and academic insight into international experience of franchising bus services has been assembled via the Thredbo Conference Series at **https://thredbo-conference-series.org/**

decarbonisation; ensuring the inclusion of diverse operators, including smaller local providers; and addressing the differing needs of urban and rural areas. Officials heard from four notable academic experts (many with both academic and practice-based expertise) and one practice-based expert. These sessions were informed by a set of expert-authored ‘Think Pieces’ (published alongside this report) offering in-depth recommendations and insights tailored to the Welsh context.

Key findings

This section of this report is divided into three parts:

- **Part 1: Analysing context and governance** – outlines governance and implementation factors relevant to Wales and the key concepts and areas of focus for comparing transport authority approaches to bus franchising.
- **Part 2: Insights into contracting and awarding** – draws heavily on the practice-based case studies published alongside this report to support contract and procurement design by distilling actionable insights in the most significant decision areas for contracting and awarding bus franchises.
- **Part 3: Insights into policy challenge areas** – identifies themes, challenges, and opportunities for bus reform in Wales to increase access to public transport and achieve modal shift especially in relation to rural areas.

Part 1: Analysing context and governance

Developing a model for Wales

A variety of approaches to competitively tendering, awarding, and contracting public bus services exist across public transport systems. Although there is a rich academic evidence base, it shows that there is no single ideal bus franchising model or approach to contracting and awarding competitively tendered bus services. **Effective design requires adopting a context-sensitive approach rather than attempting to replicate existing models.** Evidence highlights the need for the Welsh Government and TfW to take an evolutionary approach, using adaptive and realistic frameworks centred on continuous improvement and learning.

The findings indicate that the overall success of the Bus Services (Wales) Bill will depend on **how effectively it is implemented and adapted to local conditions**. Effective implementation in Wales will rely on high alignment between policy design (such as goals, governance, capacity, and resources) and its implementation context (including transition planning, market conditions, user requirements, network and service delivery, and financial realities).[2] For example, one case study contributor noted that the transition to franchising is

[2] To support policy to be more attuned to its implementation context, the WCPP and the **Centre for Evidence and Implementation** have developed a **framework and resources** to support policy to be bridge the policy-implementation gap (Baan et al., 2023).

more than policy enactment; it is the start of an entirely new business, more likely to succeed when made a key priority and supported by clear guidance.

Transitioning from a deregulated system

A well planned and managed transition will require the Welsh Government and TfW to: 1) deeply engage with operators to harness their commercial knowledge and intelligence, and 2) build up competence as a bus regulator and centralised authority with sufficient time, resourcing, and support provided to match the scale of the challenge.

A well-planned and managed transition is a crucial success factor for the Bus Services (Wales) Bill. As highlighted in the introduction, the Bill represents a fundamental shift from a system driven by 'market initiative', where bus companies have freedom to decide which routes to run based on commercial viability, to one based on 'authority initiative', where services are planned to meet wider social, environmental, and economic objectives and autonomous market entry is legally restricted (van de Velde, 1999). Although major reforms have occurred elsewhere, Wales and other UK authorities, such as Greater Manchester, are relatively unusual in transitioning from a deregulated market with 'competition on the road' to bus franchising with 'competition for the road' to give the public sector greater control over services.

Dr van de Velde's think piece (2025) makes the case that no one model nor contracting approach is inherently better than another, whether it be authority-initiative versus market-initiative, or gross-cost contracts versus net-cost contracts. **Reforms must be well managed and based on an accurate diagnosis of initial conditions, the needs and assets of key actors, and an ability to adapt to changing circumstances.** Key areas for diagnosis highlighted by Dr van de Velde are:

- where knowledge is located (with operators or authorities) and the maturity of that expertise;
- the characteristics of the existing supplier market;
- the nature and potential of demand;
- feasible governance arrangements;
- policy ambitions and available budgets.

Experts highlighted that Wales' transition from a market initiative model to an authority initiative model has wider implications for skills, competencies, governance, and resourcing. In many European contexts, major reforms to bus services involved moving to franchising from a state-run monopoly, meaning the relevant expertise and market understanding rested with the public sector. By contrast, in Wales a significant proportion of that expertise lies with operators after decades of a deregulated market. Obtaining data and

having a clear data strategy to inform decisions was highlighted as a priority. Adequate consideration also needs to be given to this reality alongside TfW's ongoing shift from being a rail provider to a multi-modal integrated transport authority.

Key enablers for effective implementation

Experts emphasised the importance of developing a trusted partnership way of working with operators with clarity underpinning bus service contracts and governance. Trusted partnership approaches themselves rely on high-quality data and information systems overseen by a well-equipped transport authority.

A recurring recommendation from experts was that the Welsh model should adopt clarity and partnership as guiding principles, given the dynamic nature of public transport delivery and the added uncertainty from emerging technologies such as Battery Electric Vehicles. Clarity was emphasised in two areas: 1) the content of contracts between TfW and operators, and 2) the definition of roles and responsibilities across the system (i.e. governance), ensuring the responsibilities of each actor is based on strengths and capabilities.

Developing a partnership approach between TfW and operators was considered essential:

> **Critical factors for successfully steering the market to deliver public value include establishing a balanced relationship between the authority and operators and developing contracts that are adaptable and flexible based on local circumstances (van de Velde, 2025).**

Contracting and governance are key mechanisms for enabling future Welsh operators to support TfW and the Welsh Government in delivering wider transport objectives. Clarity, as a principle, was understood as simplicity and good communication, not necessarily the specificity of details, and can apply equally to both 'specified' and 'functional' contracts (as defined below). Regarding good communication, many experts emphasised the importance of open and ongoing dialogue between the authority and operators.

Closely linked to clarity was the experts' emphasis on fostering a partnership-based approach across the competitive tendering process, including the contract award period. This aligns closely with TfW's One Team vision. Developing trusting and collaborative relationships with operators was viewed as essential, with case study experts highlighting how this enabled operators to optimise operations and deliver better value for money (see p. 17 below). Expert input and scoping research also found that strong, trust-based relationships were crucial during moments of significant disruption, such as the Covid-19 pandemic, and for sustaining healthy competition. As Mulley and Nelson (2025a) note, collaborative models of competitive tendering are becoming increasingly important in the

context of decarbonisation, given the added complexity and uncertainty around risk, operating costs and workforce skills. Procurement and contracting will likely need to evolve and expand to include additional key actors, such as energy suppliers and manufacturers.

Developing a clear, collaborative model capable of continuous adaptation and improvement was seen as an important goal for the Welsh Government and TfW. Since successful implementation depends heavily on alignment with local context, experts stressed that two enabling factors are essential:

1. **High-quality data and information systems** to support ongoing learning and intelligent network design and delivery
2. **A well-equipped transport authority** with adequate resources, skills, and institutional capacity

Timely and reliable data is vital for informed decision-making, network and service planning, and ongoing performance management. This includes detailed assessments of market conditions and user needs, to diagnose, respond to, and shift demand to public transport, as well as to make the network more inclusive and accessible. **Many experts noted that even the best data analytics and contracts are ineffective without a well-equipped and resourced regulator.** The authority is consistently viewed as playing an active and enabling role throughout the contract award process, ensuring specifications are realistic and that strategic aims and policy objectives are being met.

Governance and the STO Framework

Establishing clear and strong governance is vital to designing a successful contracting regime. Initial scoping research found challenges in making direct comparisons between bus franchising models and identifying success factors relevant to the Welsh context. To address this, we adapted van de Velde's (1999) 'Strategy, Tactics, and Operations' (STO) framework to analyse the distribution of roles, relationships, and responsibilities across different levels of transport governance. The STO framework, shown in **Figure 1** below, is particularly useful for highlighting both formal and informal dynamics between authorities and operators, helping to move beyond simplistic distinctions between models and better inform implementation decisions in Wales.

<table>
<tr><th>Decision level</th><th>General description</th><th colspan="3">Decision
“Software” “Hardware”</th></tr>
<tr><td>Strategic

Long term
(5 years)</td><td>What do we want to achieve?</td><td colspan="3"><u>General goals</u>
Transport policy
Market share
Profitability
<u>General service characteristics</u>
Areas
Target groups
Intermodality</td></tr>
<tr><td>Tactical

Medium term
(1-2 years)</td><td>Which services can help to achieve these aims?</td><td colspan="3"><u>Detailed service characteristics</u>
Fares
Image
Additional services
Vehicles
Routes
Timetable</td></tr>
<tr><td>Operational

Short term
(1-6 months)</td><td>How to produce these services?</td><td><u>Sales</u>
Selling activities
Information to the public
…</td><td><u>Production</u>
Infrastructure management
Vehicle rostering and maint.
Personnel rostering and mngt</td></tr>
</table>

Figure 1: STO Framework from van de Velde (1999)

It is important to note the limitations of the published high-level, case study snapshots outlined in the Introduction (pp. 9-10). The template devised for capturing snapshots adapted the STO framework but went beyond it to focus on governance, contract, and awarding. Although the template was created in collaboration with Dr van de Velde, it should be regarded as an interpretation of his work rather than a precise representation, due to the methodological limitations previously discussed.

Contract types and awarding mechanisms

According to van de Velde (2025), **the contract is a crucial mechanism for steering and aligning the market**. **Across our engagements, experts emphasised the need for a clear, pragmatic, and adaptable contract aligned with market conditions**. Although a contract, at its most basic, is a ‘statement of the allocation of different types of risk between the operator and the contracting authority’ (Mulley and Nelson, 2025b: 3), experts stressed that contracts are, by nature, incomplete (Hensher et al., 2016a). As Mulley and Nelson (2025b: 8) note, this is because it is ‘**unrealistic to expect a contract to account for every eventuality**’. There was strong consensus that although incomplete, contracts should still provide clarity on risk allocation, governance, and performance management. Contracting offers an opportunity to calibrate the strategic level with the operational:

> **The contract with the operators should serve to align the operator’s goals with those of the authority. In this regard, it is important to set realistic ambitions and**

> **ensure contractual targets are achievable. This requires the allocation of risks to those able to manage them, and it requires an awarding model that prevents situations leading to 'the winner's curse'. (van de Velde, 2025)**

Experts highlighted several essential areas that contracts must address: the distribution of planning responsibilities, service specification and performance management, risk allocation, incentive mechanisms, environmental considerations, asset ownership, awarding mechanisms, and transition issues (van de Velde, 2025). Depending on the desired relationship between the contracting authority and the operator, the approach to each of these areas will vary. Van de Velde (2025) outlines an important distinction between models that use specified contracts and those that use functional contracts:

1. **Specified contracts** – where the authority defines the service in detail, determining everything from routes to fares, frequencies, and timetables, and contracts for 'doing the thing right'. Specified contracts focus on 'productive efficiency' (delivering a specified level of service as cost-efficiently as possible while meeting performance and quality standards) and are often, though not always, 'gross-cost', with the authority assuming the revenue risk. The Transport for London model is a notable example of this approach, although Ruter, our Norwegian case study, shows that specified contracts can also incorporate net-cost features.

2. **Functional contracts** – where the authority sets minimum service levels and contracts for 'doing the right thing', leaving it to the operator to design how to meet those requirements. These contracts transfer more responsibility, and risk, to the operator, particularly around network design and fare setting. This approach tends to involve net-cost models and is exemplified by competitive tendering regimes in France and the Netherlands.

During one Spotlight session, Professor Emeritus Corrine Mulley remarked that '**the best contract is the one that sits in the drawer because it is clear**' about the who and how, setting feasible and realistic goals based on capabilities, with balanced obligations for both the authority and operators. Decades of international experience underline a recurring theme: 'irrespective of the awarding mechanisms… **building trusting partnerships** between the transit authority and operators is always beneficial' (Sheng and Meng, 2020). Evidence from engagements reiterated that there is no ideal contract. As Professor Hensher's work argues, **the goal should be to strike a fair and feasible balance of responsibilities across the strategic (S), tactical (T), and operational (O) levels of transport governance**, an issue explored further in the next section of this report (Thredbo, 2024). This also requires a balanced relationship between politicians and planners.

Translating learnings to Wales

Key insights and learnings drawn from cases must be translated to the Welsh implementation context. Simplistic distinctions and conclusions about approaches to governance and contracting should be avoided as existing models are often a complicated and evolving mosaic of decisions.

While case examples provide useful reference points, direct replication is unlikely to be effective. Differences in market conditions, governance structures, institutional history, capacity, and cultural and political context limit the transferability of any single approach. **Experts stressed that simplistic distinctions between models, such as gross-cost versus net-cost, should be avoided** because each approach to bus franchising is more likely to involve a complex mix of trade-offs that do not fit neatly into fixed categories.

While governance structures and contract types are useful for differentiating bus franchising models, they should be understood as dynamic rather than fixed. Importantly, van de Velde (2025) notes **that the relationship between the authority and operators can, and should, evolve over time in response to changing conditions.** For example, where operational knowledge and market intelligence initially lie with incumbent operators, it may be necessary to build the capacity of the authority gradually. Likewise, strategic objectives such as investing in infrastructure, for example depots, or managing the transition to electric fleets, will affect the distribution of responsibilities and risks over time. These longer-term changes emphasise the importance of adaptability and flexibility to enable a progressive rebalancing of roles as the system matures.

Our practice-based case studies show how authorities in various jurisdictions have adjusted their contractual approaches over time in response to changing goals, market conditions, and institutional capacities. Some regions have moved from gross-cost to net-cost contracts, while others have done the opposite. One public authority with a remit for supporting multi-modal integration described how they moved from net-cost to gross-cost contracts because the latter was better suited to making significant network changes. These examples further reinforce that no single approach is inherently superior, and that success depends on alignment with the local implementation context.

Part 2: Insights into contracting and awarding

Introduction

Part 2 focuses less on the strategic context and more on tactical and operational decisions. It draws heavily on the practice-based case study evidence, and the **snapshots** published alongside this report, to cross-compare approaches to contracting and awarding, as well as

to highlight areas of expert consensus. First, we provide an overview of the key recommendations and advice given by experts for the Welsh Government and TfW as they design their contracting regime. We then explore the key findings linked to each contract and procurement decision area, as outlined in Table 1 of van de Velde (2025) and provided in Appendix 1 of this report.

Overview of key themes to inform the Welsh contracting regime

Across case studies, experts emphasised that the Welsh Government and TfW **are unlikely to get contracting perfectly right on the first attempt.** Instead, the approach to contracting competitively tendered **services will need to evolve over time,** which highlights **the importance of flexibility, adaptability, and recognising that contracts are always incomplete** (as explained previously on p.16. One case described it as '**more an evolutionary process than a revolutionary process**'. Another advised adopting a long-term, 20-year vision focused on incremental improvement, **cautioning against trying to implement everything at once,** a temptation many experts warned against. Existing models did not emerge overnight. They evolved from their context in an iterative way, shaped by drivers that might not be transferable to other contexts, such as specific legal, legislative, and institutional frameworks (van de Velde, 2025). For example, Queensland's Transport Operations (Passenger Transport) Act 1994 introduced a 'right of first offer' for incumbent operators, which heavily shapes their approach to franchising and is unique even in the Australian context (Queensland Government, 1994).

There was clear consensus on the need for continuous and extensive engagement with operators. Experts advised a collaborative approach to contracting with ongoing dialogue and engagement with the market. Several cases embedded engagement throughout the procurement process and contract award, providing examples of regular dialogue, high operator involvement, and partnership working. For example, Västtrafik identifies as taking a partnership-based approach to working with over 140 contracted operators. Ruter's approach emphasises ongoing dialogue and interaction with the market. One case identified dialogue as a key success factor for its contracting process, as it had increased the competence of all parties involved.

Mulley and Nelson (2025b) note that dialogue can support smaller operators and help minimise issues during transitions between contracts and operators. One expert advocated balancing formal and informal approaches, highlighting the value of in-person meetings for building trust, maintaining clarity, and providing stable market conditions for operators. **There was consensus about the need for to avoid excessive formalism and over-management:**

> **The danger of excessive formalism in contractual setup and management is another issue that requires particular attention. Fair treatment of operators, fostering partnerships where possible, and balancing understanding for hardships when necessary with the avoidance of complacency are important to creating a trusting relationship. (van de Velde, 2025)**

Experts emphasised the need to design a contracting approach that enables the authority to regulate and the operator to operate, regardless of the specific contracting model. Approaches to this differ. Singapore views gross-cost contracts, where the authority assumes full revenue risk, as a way to allow operators to focus solely on operations. Jersey, on the other hand, values its net-cost subsidy model because it enables operators to take a more active role at both the tactical and operational levels.

A recurring theme across engagements and Spotlight sessions was the importance of a clear, strategic, and integrated vision for the role of buses in the wider public transport system. Several cases highlighted that increasing patronage and achieving strategic goals often required first redefining the role of buses, then using that vision to guide network redesign and improvements. In one context, the role of buses shifted from a focus on tourism to one centred on social inclusion. In another, this reconceptualisation led to changes making the network more flexible for communities, particularly at weekends. **Many cases emphasised the strategic role of buses in supporting a sustainable transport system and contributing to decarbonisation targets**, a theme explored further in the subsections below and in Part 3. In multi-modal, integrated transport networks, experts highlighted that **although buses play a vital role, there must be clarity about their relationship to rail**. Buses are often more agile and most effective when complementing, rather than duplicating, rail services. Several cases described rail as the backbone of their transport network, shaping how bus services are designed and deployed to enhance connectivity.

Key choices in designing a contracting regime

Every bus franchising model must make key decisions about the contract itself and the procurement procedure (van de Velde, 2025). To provide a clear structure for cross-comparing and applying these strategic, tactical, and operational learnings to the Welsh context, Part 2 uses van de Velde's (2025) Table 1, summarising the key choices in designing a contracting regime (also provided in Appendix 1). This table overlaps with and builds on the STO framework.

Procurement procedure

Dividing bus services into contractual units

Key decisions include:

- **Choosing the allotment**: from one route to a bundle of routes or a whole network
- **Choosing the duration of contracts**: often linked to asset amortisation
- **Optimising the periodicity of competitive opportunities**: frequent opportunities (monthly), yearly to every 15 years

Contract size, length, and periodicity can significantly influence the market and are crucial for promoting healthy competition, achieving value for money, and building and maintaining tendering competence. Bus 'franchises' can be divided in various ways depending on the network and local conditions. Common approaches in competitive tendering are: **routes** (e.g. the TfL model); **bundles or packages** of routes (which can also be referred to as areas); and **entire networks** (e.g. the Netherlands). The network approach to tendering often uses a functional contract approach (see p. 17) with higher expectations of operators in service planning and innovation. As van de Velde (2025) and cases shared, **bundling (the packaging of routes together) can be an effective strategy for cross-subsidising socially necessary, less profitable routes.**

Strategic thinking in the division of services is important to avoid spatial monopolies and to promote fair competition across a diverse market. The size of contract packages must be appealing to a range of operators. What is considered attractive can vary between networks and operator types. For example, Mulley and Nelson (2025: 4) note that 'too small a package in urban areas may create boundary issues, while too large a package in rural areas may exclude existing smaller operators'. **There is a crucial balance between the size and length of the contract for making franchises appealing.** The length of the contract can help to provide stability and encourage operator investment in staff and assets, **but longer contracts must allow for adjustments to be responsive to changing needs**.

Globally, contracts usually run for a minimum of five years and often for seven to ten years (Mulley and Nelson, 2025b). Our case studies show that most transport authorities take different approaches to contract division and length. **The majority of cases contract packages or bundles of routes**. Ireland adopts a mixed approach to the division of services with tenders in certain places offered for networks, bundles, and even single routes. Due to Jersey's size and geography, it tenders for one network and uses a single-operator model. **In terms of contract length, all cases examined offer contracts of at least five years, with many, such as Singapore and Ireland, including performance-based extensions.** Västraffik and Ruter have shifted over time to awarding the longest contracts legally permitted.

Experts agreed that contracts for smaller operators, particularly SMEs, should be simple and appropriately sized, especially in rural areas. Adjustments to length, size, and performance requirements may be necessary. For example, informed by market

engagement, the Liverpool City Region introduced two categories of contracts to attract a more diverse range of operators. Scoping research and Spotlight sessions indicated that smaller operators often need additional support with tendering due to having less capacity, fewer resources, and less experience. In some contexts, different category types or tiers of contracts were introduced to accommodate varying operator sizes. In others, only minor adjustments were made for rural areas or smaller operators. Further research may be needed to explore how bus franchising contracts in Wales can best promote and/or complement a multi-modal integrated network in more dispersed rural areas:

> **When designing a multi-modal integrated network, smaller contract sizes may enable more innovative services and allow local operators with better route knowledge to participate (Mulley and Nelson, 2025b: 3).**

The frequency (or periodicity) of tendering is also a critical factor, as it affects the competence of both the regulating authority and the operators. In contexts with less frequent tendering cycles (i.e. with fewer opportunities for operators to bid for existing or new contracts) authorities and operators can struggle to maintain tendering expertise and capacity. If there are large gaps between tendering cycles, vital intelligence from the previous cycles may be lost or have become outdated. This can lead authorities to become more reliant on external consultancy support for informing contract design and procurement.

Expert insights highlighted a need to think strategically about the franchising tendering schedule. Longer contracts do not necessarily risk undermining authority competencies, provided there is a regular schedule of new tenders. Many cases explored through the Spotlight series, including Singapore, Västraffik, and Ruter, stagger their tendering cycles to ensure frequent opportunities despite having longer contracts. The TfL model involves fixed term contracts of up to seven years awarded via a continuous programme of tendering, with about 15% to 20% of London's bus network tendered each year and Invitations to Tender typically issued every 2-4 weeks, ensuring that unsuccessful operators soon have another chance to bid. **Maintaining regular tendering cycles can benefit both the authority and operators, even those who are unsuccessful.** One case reported that frequent tendering improved the quality and performance of bids over time. Another stressed the value of providing regular tendering opportunities for operators, in combination with constructive feedback on previous tender performance to help operators improve for future bids.

Choosing the winner

Key decisions include:

- **Choosing the type of awarding procedure:** examples are - competitive dialogue, negotiated procedure, simple procedure, and direct awarding

- **Composing the awarding model items:** the scoring and weighing of items which can include - price, quality guarantees, improvement proposals on costs and revenues.

The choice of awarding procedure is constrained by the surrounding regulatory and legislative environment. For example, Australian law permits approaches such as 'right of first offer' and 'negotiated performance-based contracts', which allow contracts to be negotiated with incumbent operators without competition. This model is incompatible with procurement regulations in much of Europe. In contrast, many jurisdictions in Europe, including Ireland and Liverpool, adopt a 'negotiated procedure' approach. Many cases shared the value of this dialogue with the market, as it helps identify and resolve concerns early, ultimately leading to stronger contracts.

Many cases have extensive market engagement both before and during the tendering process. For example, Västtrafik follows a multi-year tendering process beginning with pre-studies and individual and joint consultations, aimed at informing their highly specified tendering approach. Several cases reported using a combination of larger scale open engagements (such as conferences and meetings) and more targeted interactions to better understand operator needs, address concerns, and level the playing field with incumbents. One authority invites all prospective operators to visit depots as part of the procurement process. Another reported that operators valued a clear and rapid clarification process during tendering.

Experts cautioned against awarding based solely on price. In several cases, such as Singapore, there was evidence of operators bidding at very low margins, meaning price could be less of a differentiator between bids. Cases presented evidence showing how well-designed competitive tendering models can put downward pressure on prices without compromising competitiveness or quality. In some cases, healthy competition persisted even with operator margins as low as 1%. While such low margins may deter some large multinationals operators (although they played a role in many of the cases explored), experts noted that this can result in a more place-based but highly specialised, efficient, and competitive market. In the context of decarbonisation, Mulley and Nelson (2025a) emphasise the importance of developing awarding criteria around quality:

> **The shift to franchising and decarbonisation introduces contract complexity through uncertainty around risk, operating costs, and workforce skills. Disruption costs, for both operators and TfW, should be considered in tender evaluation, with quality and risk mitigation factored in such that the lowest tender may not always be the best (Mulley and Nelson, 2025a: 8).**

Approaches to evaluation criteria varied across cases and often evolved in response to other factors such as whether the contracting model was more specified or functional.

One expert emphasised that **awarding criteria should evolve and adapt over time.** For instance, in Copenhagen, contracts are now awarded solely on price, but only because the quality of all operator bids consistently reached such a high standard it made including quality criteria unnecessary. By contrast, another case initially awarded contracts based solely on price but later introduced quality criteria, which led to significant improvements in outcomes. One expert noted that quality scoring can be challenging in contexts where procurement decisions are subject to appeal, though others highlighted that early dialogue with operators can help reduce the risk of legal challenges. In another example, while the authority takes a specified approach to tendering, operators can propose service improvements in their bids and are scored more highly if these are considered to offer better value for money. Some experts also recommended using simulations and shadow bids to test and strengthen the awarding procedure.

Managing the competitive market

Key decisions include:

- **Market creation/management:** which depends on the local starting position
- **How to invite potential competitors:** for example, including within the procurement regime – pre-selection, qualification system, or framework agreement
- **How to control competition:** for example, how to control dominant positions

A common success factor across many cases was the development of an enabling approach for smaller operators, although specific tactics varied. There were different views on joint or combination bids as a way to encourage collaboration between operators. For example, Västtrafik no longer permits combination bids because, in their context, they found these could disadvantage smaller operators. Instead, smaller operators have established a parent company to support with tendering and contract management to increase competitiveness and share resource and competence.

As highlighted earlier, **a key mechanism for attracting and retaining smaller operators is balancing their risks with contract size and a simple contracting approach.** Experts agreed on streamlining the process, for example by pre-qualifying operators or using simplified contracts and performance measures. Reducing complexity can ease the burden on both the authority and the operator, helping smaller operators feel more confident to tender, whilst accelerating the overall contracting process. One case noted that smaller operators were often reluctant to take on net-cost contracts due to the revenue risk. Experts also emphasised the need to tailor KPIs to rural contexts so that operator performance focuses on the most impactful measures, such as on-time-running to facilitate better interchange for passengers. It was also noted that the performance of smaller operators often improves over time. In some cases, smaller contracts served as a valuable entry point for new operators to trial services and establish themselves in the market. However, some

cautioned that if these operators were successful, smaller operators may later be acquired by larger operators, potentially reducing market diversity.

Multiple cases noted that 'healthy' competition for their market is about the quality of bidders, with the presence of more than one strong contender, and less about the quantity of bidders. These cases reported at least some level of competition, typically between three and five bidders per tender cycle for larger contracts, though sometimes as few as two. Another case noted that in rural areas, only two bidders initially participated, but that this number increased over time through measures to support the market. Another case observed that despite a decrease in the number of bidders over time, the quality of bids improved alongside a decrease in operating margins. This case acknowledged that lower margins likely contributed to certain operators exiting the market or choosing not to enter – a point previously mentioned. Nonetheless, they emphasised that lower margins can be viewed as a signal of healthy market competition, rather than using the number of bidders as the benchmark.

Experience from elsewhere suggests that active coordination with other transport authorities to standardise specifications and procedures across regions can make it easier for operators to enter the Welsh market and enable operators to bid in different areas. Further research into this area is likely significant to the Welsh context given the wider bus franchising reforms underway across UK authorities. Standardisation was supported by aligning contracts with national policy standards and objectives. Efforts were focused on providing operators with consistent expectations across the franchising landscape. For example, Ruter uses the ITxPT information system to standardise its approach to data and also coordinates and cooperates more widely with other Norwegian public transport authorities to coordinate vehicle specifications and contracting approaches.

Contracting

Asset management and ownership

Key decisions include:

- Specifications
- Ownership, investment and transfer regime
- Common assets are: vehicles/fleet, depots/garages, IT systems

There was no single approach to asset ownership across cases. Different stances were taken on vehicle fleet ownership, with some fleets owned by the authority and others by operators. There was greater consensus around depot ownership, with most engaged authorities owning bus depots, particularly those deemed 'strategic'. Main reasons included maintaining healthy competition between operators, supporting smaller operators, and

increasingly the need to develop and maintain adequate power and energy infrastructure for depots. In Ruter, a political decision placed asset ownership at the municipal level, allowing Ruter to concentrate on dialogue with operators and the customer experience without the potential distraction of a focus on procuring and maintaining assets.

In several cases, asset ownership was used as a mechanism to accelerate market alignment with strategic policy goals, such as fleet electrification or enabling authorities to redeploy assets more easily in response to urgent or temporary needs. In other cases, clear specifications in the tender, combined with longer-term contracts, enabled operators to own vehicles while investing in fleet electrification. One case study with a trusted partnership model described how the authority's ability to redeploy assets, alongside its strong relationship with operators, allowed collaborative delivery of bus bridging services during temporary rail disruptions.

All cases incorporated clear specifications for assets into their contracts, with most highly specified at the tendering stage. Specifications, regardless of asset ownership, can be used as a lever for aligning the market with policy aims such as decarbonisation and to improve bus attractiveness. For example, one case reported actively monitoring the age of the operator's fleet, recognising that this can influence passenger perceptions.
Specifications should be based on thorough research into market conditions and local need assessments. This is especially important in the case of zero-emission vehicles as they require supportive infrastructure, may experience performance issues if poorly matched to an area, and also have personnel implications (e.g. skills and maintenance). This will be revisited in Part 3.

Transport authority ownership of depots can remove incumbent advantage in tendering. Multiple authorities highlighted that owning strategic infrastructure (such as depots) was crucial for promoting healthy competition and enabling new entrants and smaller operators. This was also identified as a key learning from cases where approaches had been less successful. One case noted that their decision to purchase vehicles and own certain assets was a direct response to market engagement and helped encourage new bidders to participate. Another observed that asset ownership could help reduce the margins requested by operators. Exceptions to a case study's overall approach to asset ownership often occurred at the rural level where asset ownership of both fleet and depots more often remained with operators.

There was expert consensus that the authority should hold the responsibility for the strategic infrastructure. This often resulted in depot ownership especially due to the wider infrastructure needs decarbonisation requires:

> **Zero-emission (at the tailpipe) vehicles will require supporting infrastructure in terms of depots capable of charging or refuelling with access to sufficient fuel**

> **supplies from clean sources and, in the case of electric vehicles, the possible need for storage of fuel so as not to overwhelm the grid (Mulley and Nelson, 2025a: 5).**

An example that will be explored again in Part 3 is the shared risk approach to electrification that Ruter and Västtrafik have developed. Both authorities assume the responsibility and risk of assessing, developing, and supplying the 'below ground' power infrastructure for depots, even though operators own bus fleets. Several authorities that did not fully own depots had plans to purchase or build them in the future.

Given how many transport authorities owned depots, cases shared approaches to delegated management of these assets were specified in the contract and often tied to performance measures. This will be explored in more detail in the quality management section, as all authorities engaged had incorporated measures into their approach to contracting. For example, one authority conducts audits, while another uses surveys to ensure assets are being maintained to a high standard. As Mulley and Nelson (2025a) note, maintenance of depots and vehicles is a key operational risk transferred to the operator, and the contract is the mechanism for agreeing, managing, and monitoring this risk.

There was consensus on providing the customer with a unified brand, marketing, and digital experience. Multiple authorities used centralisation to plan, coordinate, invest, and provide a smoother customer experience through marketing, back-end support, and information systems. Marketing responsibilities were most often held by the authorities with many cases seeing this as crucial for providing customers with consistency across the network and providing a central point of contact. Some cases combined marketing with planning, to align with the regulatory context they operate in. For example, one case described this as a strategic responsibility, despite its operational nature, as it helped centralise complaints and prevented customers from having to contact multiple operators, which might impact on attractiveness and reputation. Most authorities engaged in the series own and provide the technology needed for performance data collection.

Personnel

Key decisions include:

- Skills
- Transfer of personnel

Skills and training were generally regarded as the responsibility of operators, but contracting was seen as a way for authorities to improve working conditions. Case study snapshots evidence how recruitment, training, and retention of staff were viewed as day-to-day responsibilities which experts felt operators know best. **Mulley and Nelson (2025b) emphasise that contracts should include clear specification of transition plans**

and handover of staff. This was supported by case study experts with particular reference to bus drivers, highlighting areas such as contract specification around mandatory transfer of bus drivers as a crucial means of avoiding service disruptions in the transition between contracts.

The skills, capacity, and vision of an authority also strongly influence the contracting regime. An interesting case study to consider is Västtrafik, which emphasises that the authority needs to be an attractive buyer (or contractor). This is supportive of a healthy market and competition, but it also has led them to incorporate specifications to improve driver working conditions in their tender due to a bus driver shortages. When appropriate, they offer training and skills support and actively take steps to help drivers in making public transport for all.

Several personnel and transition-related cost considerations in relation to the authority were raised by experts. For example, Mulley and Nelson (2025a) raise how authority transition costs should be accounted for:

> **The private transition costs incurred by the operator might be expected to be internalised. However, the disruption costs borne by the tendering authority – for example, issues with staff at takeover, disruption as the new operator gains service experience, and service changes which affect passengers – are not typically accounted for (Hensher et al., 2016b).**

Many cases raised the need to calibrate contracting to the skills and capacity of the authority, linking back to an initial recommendation to ensure that TfW is well resourced and able to build up competence over time. One case mentioned needing to increase their internal capacity to support the ongoing management of contracts. They also mentioned the vital, preventative role this will play as it often proves less costly than bringing in external help after problems arise. Many cases advised against underestimating the resources and growth needed, even where there was sector experience. **Upskilling of staff and developing a plan about how to grow, develop, and improve the capacity and competence of the authority will be a key success factor for transitioning to bus franchising.**

Service definition

Key decisions include:

- Service development responsibilities
- What incentives? What works?
- Flexibility of the order during the contract

For the majority of the cases, the responsibility for network design and specification rested with the transport authority. This is often the case with gross-cost contracts. For authorities overseeing a multi-modal transport network, responsibility for service planning was viewed as enabling better integration of bus with other transport modes (e.g. rail) to provide passengers with a seamless transport experience. In all cases, operators were engaged to some extent in informing network and service design. Many cases conduct studies and consultations to inform network design and service definition. For example, one gross-cost case explained how their model balances high expectations for public transport delivery with scope for innovations from the operational level. In addition to operators, service planning often involved engagement with the public and local authorities. One case shared how consultation with wider stakeholders supported network changes that improved access to opportunities, such as connecting passengers to workplaces, hospitals and schools. This last point will be explored further in Part 3.

Mulley and Nelson (2025a) highlight the key inter-relationship between network planning and wider infrastructure plans, which is another opportunity for developing guidance for standardising and directing stakeholders towards successful outcomes. Another case study expert noted how drafting clear service planning guidelines can also help to justify decision-making. **Service planning guidelines should be developed collaboratively and supported by appropriate governance, considering the relationship between the strategic, political dimension and the decision-making role of the authority**.

All **cases provide some flexibility** during the contract to propose service changes**.** As previously highlighted, some cases allow this to happen during the procurement process by incentivising operators to propose service improvements through awarding criteria. **All cases clearly specify service variations in their contracts with operators required** to seek approval from the authority**.** Due to its more functional approach to contracting, Ruter provides a wider range of flexibility, allowing operators to expand services by up to 70% or reduce them by up to 40% during the contract period. Jersey's approach includes a one-year bedding-in period where fares, routes and timetables are specified based on the previous contract. After this period, the operator is encouraged to support the development, growth and improvement of the network, subject to approval. Their net-cost contracts and profit-share agreement are understood as key mechanisms for incentivising this. Jersey was not the only case with a profit-share mechanism; another, using gross-cost contracts, incentivises operators to optimise and improve during the contract by allocating them a proportion of any cost savings.

Revenue

Key decisions include:

- Fare definition

- Revenue management

Given our primary research questions, this area was explored in less detail during the Spotlight series. Practices highlighted in this section should be treated as preliminary and merit further research. The series revealed varying approaches to fare definition and revenue management. Only two case studies in the series used net-cost contracts, meaning that all others retained the farebox with a role in fare definition and revenue management. In some transport authorities, fare strategy development was directly led by the authority; in others, responsibility was held and decided at a more strategic level. For example, in Singapore, the Public Transport Council (PTC), a separate entity from the transport authority, regulates and sets public transport fares and ticket payment systems to achieve a sustainable, affordable public transport system (Government of Singapore, 2025).

Centralised control over fares was seen as important for multi-modal integration and achieving a unified fare**/**ticket**,** to avoid penalising passengers for interchange during their journey**.** Experts emphasised the value to passengers of a single unified fare for their entire journey, delivered either through a ticketing system or by a smartcard. As far as possible, fares should be integrated across transport modes, with innovations emerging such as integrating bus fares with e-bikes. One expert noted that there are still limited examples of multi-modal smart ticketing systems outside London. Given the level of coordination and partnership required, having a centralised authority overseeing revenue management and fares can help, but a key area of challenge is with integrating with less conventional transport modes, such as Demand Responsive Transport (DRT). A case study identified its distance-based fare as a key success factor for their integrated multi-modal model. Passengers pay one fare for the entire journey, regardless of mode, as research found that public transport users disliked interchange because of the added cost.

Fares were often seen as a strategic responsibility, with cases showing how retaining this responsibility enabled authorities to support passengers during difficult times. One example surfaced through scoping research and spotlights were pricing initiatives to encourage bus use during the Covid-19 pandemic and to recover passenger numbers afterwards. More recently, one case reduced fares to support passengers during the cost-of-living crisis. One expert cautioned that free fares may unintentionally disincentivise active travel.

Evidence suggests that pricing initiatives can help increase ridership, but they should fit within a holistic, multi-modal strategy to boost uptake of both public and active modes of transport and for tackling transport disadvantage. Professor White notes that Wales lacks specific pricing initiatives for increasing bus ridership when compared to its neighbours, highlighting for example, Scotland's free fares for under-22s and encouraging evidence from England's £2 bus fare cap, now a national £3 cap (UK Government Department for Transport, 2024). Some case authorities have fare strategies to make longer

term investments in behaviour change for certain groups, for example by offering reduced fares for younger people to encourage public transport use early in life. This area will be explored further in Part 3.

Allocation of contractual risks

Key decisions include:

- Costs, revenues, investments, external factors
- Mitigating clauses (indexation, risk sharing)

All cases emphasised the need for balanced and fair risk allocation to enable operators to focus on operational delivery. Most authorities in the series assumed a combination of revenue, inflationary and financing risks, and shared different approaches to indexation during the Spotlight sessions. Multiple cases shared how the negotiated procedure can help to identify and address operators' concerns about perceived and actual risks. The primary role of a contract is risk allocation, but risks can span multiple contractual areas and should be fairly shared between authority and operators:

> **Incentives embedded in a contract, whether based on gross or net costs, transfer some of the operational risk to the bus operator in meeting the specified targets or KPIs, such as on-time running, customer satisfaction metrics, service quality metrics, and accident rates. Incentives within contracts need to be achievable, well-specified, and measurable, and require clarity on KPI levels, the process of monitoring, and penalties for failure to meet expectations (Mulley and Nelson, 2025a: 4).**

Some instances of risk and benefit sharing emerged. Jersey takes a shared risk approach to revenue risk with their adoption of a minimum subsidy net-cost contract with a profit share agreement between the operator and authority. Its contract also includes step-in rights to all operational assets on default or termination of contract, to mitigate service disruption as operators own all the operational assets. Another authority, as previously highlighted, agrees to share cost savings with operators to incentivise efficiency. For risks linked to decarbonisation and emerging technology, Ruter takes a shared-risk approach to electrification, with operators responsible for vehicles and charging equipment, and the authority for power supply and infrastructure. This will be explored further in Part 3.

In many cases**, where operators identify an opportunity for additional investment, they are encouraged to invest at their own** risk**.** For example, Ruter permits the development of additional depots, subject to certain conditions. Singapore also encourages operators to innovate and improve, but bears the investment costs for additional systems aimed at improving operations or monitoring efficiency.

Quality management

Key decisions include:

- Categories of incentives
- Incentive regime (monitoring and continuous improvement procedures, contract management attitude, evaluation meetings, penalty calibration etc.)

Many of the cases examined used longer-term quality incentive gross-cost contracts. A potential downside of gross-cost contracts is an imbalanced risk allocation, with too much risk carried by the authority. This imbalance can lead to perverse outcomes, such as operators running vehicles empty if no disincentives are put in place. Embedding performance measures and quality incentives into the contract is a key mechanism for rebalancing operational risks. White (2025) argues that gross-cost contracting can reduce financial risk for smaller operators and simplify network management, but may weaken incentives for quality improvement unless balanced with performance-based measures, such as excess waiting time and broader passenger experience metrics.

Incentives can provide strategic leverage for steering and aligning the market, with metrics forming one part of a comprehensive performance management strategy**.**

> **The setting of KPIs must be accompanied by appropriate reporting, performance monitoring and penalties for non-compliance to avoid perverse outcomes (Sheng and Meng, 2020; Mulley and Nelson, 2025a: 4).**

Mulley and Nelson (2025a) outline that incentive-based contracts can create levers for developing low-carbon bus networks. The contract should include both vehicle-related KPIs to guide operator behaviour and monitor overall network performance (for example, in relation to emissions) and operator performance-related metrics (White, 2025). There was also consensus on the importance of reliability metrics for passenger growth, combined with penalties for lateness and cancellations.

Incentives and performance measures should be calibrated to market conditions. There is no one-size-fits-all approach. Experts emphasised a balanced system of ‘carrots’ and ‘sticks’, clearly understood and outlined in the contract. For example, one authority noted the importance of penalties for service failure being proportionate to running costs and the savings an operator would gain by not running that journey. Authorities took a mixed approach to penalties and performance measures depending on context. There were also mixed views about incentives payments with one case noting that incentive payments: one case noted that incentives for punctuality and service quality led to a step-change, while another explained how the Covid-19 pandemic prompted a pivot in strategy. Before the pandemic, they had large incentives (30% of contract value) based on ridership. Following

significant changes in passenger behaviour, operator engagement led to a renegotiated focus on operational areas more within operators' control.

Although there was no clear consensus on specific performance measures or quality incentives, there were key recommendations to inform design decisions:

- **Simplicity benefits both operator and authority** by focusing on what matters most. Simpler performance management regimes have received positive feedback from operators.
- **Measures should be measurable, implemented, and aligned with local needs.** Measures need to be realistic with clear consequences if not met. They also need to focus on addressing the challenges relevant to a given context. One authority noted how in their context, reliability was the second most important issue for passengers (after affordability) and so the performance management regime was designed to solve that specific problem. Some measures, such as excess waiting time, suit higher frequency networks, while others, like on-time running, are more relevant to rural areas.
- **Adequate management requires ongoing, high-quality real-time data that is shared between the operator and authority.** Intelligent data systems should be linked to key performance measures and incentives, transparent, and understood by operators. One authority cautioned that disagreements arise if performance discussions are not based on shared facts and data.
- **Performance management should be adaptable and fair.** Certain factors, such as congestion, may not be within operator control. One authority uses 'cause codes' to account for these, with a mechanism for the authority to challenge operators if they think the data is conflicting. It is also important to regularly review the quality management approach as conditions can change during the contract period. For example, one authority adapted following feedback that their asset maintenance standard was too restrictive.
- **Communication lines during contract management is key and should be adequately resourced**. Multiple authorities noted the importance of investing time and resource into engaging with operators frequently and anticipating challenges early. One observed that ongoing dialogue helped minimise the use of penalties.
- **Incentives and disincentives should be embedded from the contract award stage to maintain quality standards through transitions or contractual transfers.** For example, one authority held back guaranteeing or releasing certain bonuses, such as a contract extension, until a milestone was met.

There is an opportunity to look beyond the relationship between the authority and the operator to raise quality and performance. Mulley and Nelson (2025b) recommend introducing a benchmarking process alongside franchising as a mechanism for ongoing performance improvement. This is a behavioural nudge approach instead of using a stick –

allowing operators to learn from each other and share good practice. Benchmarking can also occur without involving the authority. **Multiple cases make performance data publicly available to drive performance and address issues early.** One case noted that operators are motivated by the desire to maintain a good reputation and avoid their brand being impacted by penalties. Multiple cases also embed customer satisfaction measures, such as passenger surveys. White (2025) suggested exploring incorporating passenger quality ratings.

All experts stressed that performance management is crucial, and that finding the right balance between incentives (bonuses) and disincentives (penalties) is a key success factor. The approach to enforcement varied. Some authorities imposed strict penalties; for example, one authority penalises route cancellations regardless of the reason, doubling the penalty if operators drop below a certain threshold. They also incorporate passenger feedback so that if an operator fails to report the cancellation, the authority doubles the penalty. As previously mentioned, other authorities prefer to discuss causes with operators before imposing penalties. One case highlighted the importance of keeping operators motivated to restore services as soon as possible, while another aimed for a win-win approach, fostering collective outcomes.

Performance management regimes could at times be prescriptive, but most authorities set clear performance standards or thresholds, such as standards for punctuality, service performance, and fare evasion. Some had adopted some of the TfL frameworks, such as for bus reliability. Bonuses and penalties were then tied to performance against these standards. One authority set a 10% bonus and penalty, while another used 5–8% of contract value. Bonus incentives were widely seen as a key mechanism for encouraging operators to exceed contractual expectations.

Part 3: Key insights into policy challenge areas

Introduction

A just transition to bus franchising in Wales will require accelerating the move to net zero while improving access to reliable public transport for the significant proportion of people living in rural areas. Two policy challenge spotlights explored practical and academic evidence to support Welsh Government and TfW decision-making on these policy challenges. This section first provides policy context, before summarising the key insights and expert recommendations from the Spotlight presentations and expert think pieces.

The first Policy Challenge Spotlight examined the opportunities and challenges for decarbonising transport to the Welsh Government's Net Zero Strategic

Plan, which includes a target for all buses in Wales to be ultra-low or zero emissions by 2035. Two expert think pieces informed this Spotlight and can be consulted alongside this report*:* '*Bus franchising for the net zero agenda in* Wales' *and* '*Reducing transport emissions and increasing bus* ridership'.

The second Policy Challenge Spotlight focused on addressing transport poverty and key factors to improve rural mobility. An expert think piece titled '*Integration, rurality and transport poverty* mitigation' was complemented by practice-based evidence from **Connecting Ireland**, a rural mobility plan that has delivered promising results in improving connectivity for rural communities in Ireland (National Transport Authority, n.d.). A summary of Connecting Ireland is provided in Figure 2 on p. 40.

Policy challenge context

The Welsh transport sector accounts for a growing share of the country's greenhouse gas emissions and has made minimal progress in decarbonisation compared with other sectors. Bus reform will give the public sector in Wales greater control over accelerating and aligning decarbonisation efforts, making it an important opportunity for the Welsh Government's net zero agenda. However, experts emphasise that **franchising is not a panacea**. Although bus franchising will play a significant role, reform alone will not address all of the key challenges facing the Welsh transport sector, such as:

- **Declining patronage**: Bus usage has declined more sharply in Wales than in other parts of the UK, especially since Covid-19 (White, 2025). Passenger numbers have dropped from 180 million annual journeys in 1982 to 61 million in 2022–23 following pandemic-related disruptions (Welsh Government, 2024b). At the current rate, demand is not projected to return to pre-pandemic levels until after 2030 (Senedd Research, 2022).

- **Geographical**: Wales' predominantly rural landscape presents particular challenges, with over 80% of the country classified as rural and a third of the population living in rural areas (Welsh Government, 2023b). The Welsh Government's 'Rural Pathway' implements a 'hub and spoke' approach, combining public transport, active travel and shared transport options to serve these communities effectively (Welsh Government, 2023b). Demand-responsive services such as fflecsi buses will provide essential rural connectivity.

- **Fleet electrification**: Currently, only a small proportion of Wales' 1,800 buses are electric (Grice, 2022), primarily operated by municipal companies in Cardiff and Newport, highlighting the substantial transformation required to meet the 2035 target for all buses to be ultra-low or zero emissions.

- **Transition costs and planning:** Wales has a fragmented operator landscape, with most services provided by small and medium-sized enterprises. Smaller operators often lack the necessary resources to invest in ultra-low emission vehicles and the infrastructure needed to adequately support the transition.

- **Rising fares, reduced vehicle numbers, and limited service coverage** (particularly on weekends): These issues disproportionately affect rural and deprived communities. Access to reliable transport options remains a significant challenge, especially for low-income households and many rural areas. In the past decade, public transport fares have risen above inflation by between 33% and 74%, with bus fares increasing by 3.5% from 2019 to 2020 alone (Sustrans, 2022).

Even where services exist, variations between weekday and weekend services, daytime-only services, and a lack of stops in key locations create additional barriers. The greatest impacts are felt by those living in rural areas (Sustrans, 2022). Lack of access to transport has significant impacts on people's livelihoods, participation, and quality of life, and increases the risk of poverty and social exclusion. Data shows that people living in rural parts of Wales, or in areas with high levels of deprivation, are the worst affected by transport poverty. Demographic groups who are disproportionately impacted include women, disabled people, Black, Asian and other racially minoritised people, older people, and children and young people (ibid). Many of these groups also face additional non-financial barriers, such as a lack of step-free access and personal safety concerns.

The Welsh Government has committed to working with TfW to improve rural mobility by developing a multi-modal, integrated transport network that combines buses, active travel, and shared transport options (such as car clubs), as outlined in the Rural Pathway (Welsh Government, 2023b). While a small proportion of the rural population live and work in 'deep rural' settings, such as isolated farmhouses, and will likely remain more car-reliant, most rural residents live along transport corridors near settlements with shops and facilities (Welsh Government, 2024a). This presents an opportunity for network improvements through bus reform.

Policy challenge insights and recommendations

Adequately tackling transport poverty and delivering for rural communities through transport integration will require a clear, coordinated, multi-modal approach to network and service planning. Experts highlighted that modal shift should focus on reducing car usage rather than eliminating it entirely, recognising the important and often irreplaceable role cars play in rural communities. Efforts to increase bus and rail ridership must be balanced with integrating cars into the transport offer, for example through shared or collective car schemes, alongside other unconventional, flexible modes of transport such as Demand Responsive Transport (DRT) (Mulley and Nelson, 2025b).

While bus franchising has the potential to significantly improve service coverage and increase ridership, helping to deliver broader policy goals such as a Net Zero Wales, **its success also depends on a range of behavioural and experiential factors that shape the real and perceived attractiveness of buses as a mode of transport**. To ensure resources are targeted effectively, **network planning and design decisions must be grounded in a detailed understanding of current and future user needs.** To maximise the potential of franchising in delivering on these policy challenges, the Welsh Government and TfW should take coordinated action across the following areas:

- Increasing the attractiveness of bus to increase ridership and encourage modal shift to public transport.
- Establishing a clear strategic vision - including goals, purpose, and principles - to guide planning and decision-making.
- Improving network design and integration to support seamless travel across conventional and nonconventional transport modes.
- Assessing local conditions and user needs across groups and geographies to direct resources how and where they are most needed.
- Ensuring financial stability including measures to increase affordability.
- Developing partnerships to overcome sector uncertainties.

This section explores each of these action areas in turn by presenting the evidence and themes underpinning them.

Increasing attractiveness and bus ridership for modal shift

Given declining trends in bus ridership, action to increase the attractiveness of bus as a mode will be a critical success factor for encouraging modal shift to public transport more widely.

Experts highlighted that **understanding and addressing the attractiveness of buses is a key success factor** for the Bus Services (Wales) Bill. Although improvements to make bus use effortless and seamless can positively influence patronage, evidence also shows that a lack of confidence in public transport can be a significant barrier (Mulley and Nelson, 2025b).Wales faces particular, though less clearly defined, challenges:

> **Bus use in Wales has declined more sharply than elsewhere in Britain possibly on account of industrial decline, rail competition, and limited fare incentives, though improved service coordination and pricing reforms could support significant ridership growth (White, 2025).**

There is no one-size-fits-all approach to increasing attractiveness; what matters to current and potential public transport users will vary across communities. For some, bus travel is a necessity rather than a choice; for others, such as car users, the overall quality of the journey will be a stronger behavioural driver (White, 2025).

Value for money will depend on how well efforts to increase and sustain bus ridership through franchising and wider network improvements are tailored to local priorities. For example, Transport Focus (2024) data shows that, more generally, 'timeliness' is the most significant factor influencing user quality ratings. Evidence from Wales also suggests that frequency, coordination, and convenience are important for increasing ridership to achieve modal shift (White, 2025). Further research on bus attractiveness should examine what matters most for different parts of Wales, particularly in terms of reliability, speed, and quality. Additionally, further research into what 'good' looks like could focus on the key attractiveness areas of reliability, speed, and quality for different places across Wales.

Developing a holistic plan

A holistic plan and guidance are needed to inform standards, planning at all levels, operators, and for supporting other relevant actors, such as Corporate Joint Committees to focus and align actions with a clear goal and purpose. This will require work to improve data quality and identify appropriate measures and mechanisms to monitor progress.

Experts encourage the Welsh Government and TfW to avoid a narrow focus on modal shift. **Instead, they recommend developing a coherent, holistic strategy for buses within an actionable plan for increasing public transport uptake.** While reducing car dependency will play a key role (Mulley and Nelson, 2025a), overall success will require **coordinated implementation alongside other measures.** Reducing car dependency might also occur as a positive by-product of pursuing a broader goal.

Some experts advocated for a strategic focus on increasing bus ridership, which is explored further below. Others, such as Västraffik, focus less on ridership indicators and more on increasing the bus market share compared with cars, in response to workforce trends such as increased home working. This forms part of Västraffik's clear and coordinated vision to make sustainable travel the norm and public transport accessible to all. For example, its integrated transport application encourages users to walk or cycle shorter distances, with bicycles included as part of the public transport offer to make the choice easier.

Connecting Ireland (see Figure 2 at the end of this section) has significantly increased bus ridership by making long-term investments in improving access to rural areas. Delivered by the National Transport Authority (NTA) in partnership with the Local Link network, Bus Éireann, and other licensed operators, it takes a principled, objective-led approach to rural mobility. The focus is on achieving a minimum public transport service level for towns of

around 150 people or more, recognising that demand will be lower in these areas and that additional Public Service Obligation subsidies are required to fund minimal service levels.

Experts agreed that actions should be underpinned by measurable, achievable indicators that are a balanced mix of quality, social, and sustainability measures. Drawing on Meyer (1999), Mulley and Nelson (2025a) argue that implementing a successful, holistic strategy requires attention to the behavioural and social dimensions through both demand-side and supply-side measures:

- **Demand side measures** need to be implemented as a package of measures that pull (carrots) and push (sticks) passenger behaviour.
- **Supply side measures** focus on infrastructure development, vehicles, and service planning to maximise economically efficient operations (ibid).

The development of robust measures is necessary for achieving social and environmental outcomes and avoiding perverse effects. As Professor White (2025) notes, in terms of environmental footprint, buses are only superior to cars if certain conditions are met. In addition to the measures previously mentioned in Part 2, relating to these policy challenge areas, experts advised to:

- **Focus on measuring higher average loading for energy efficiency and lower emissions per bus passenger per kilometre.** White argues that this should be benchmarked against energy user per car occupant per kilometre to ensure that buses are outperforming cars. The breakeven point in terms of energy consumption will vary by vehicle, but White's calculations suggest around six passengers. One case study contributor highlighted how these types of indicators are embedded in their contracting regime to align with wider decarbonisation efforts.
- **Establish a maximum emission KPI to achieve zero emissions at the tailpipe.** As Mulley and Nelson (2025a) note, achievable benchmarks will need to account for context-specific factors and may vary between areas depending on market conditions.
- **Consider mechanisms for incentivising operators to formulate decarbonisation transition plans through competitive tendering.** Mulley and Nelson (2025a) note that evidence from Australia shows almost all operators had no decarbonisation plans. At least one included case study requires this through their tender.
- **Explore financial incentives, such as subsidies, to support people onto public transport and also encourage operator investment into decarbonising operations**, such as to purchase new vehicles during the transition to bus franchising. A key area of additional consideration for TfW is mechanisms in the contract for what to do with these operator investments and assets over time. For

example, at the end of operator contracts with Ruter, all 'above ground' infrastructure installed at depots remains with Ruter rather than the operators.

Connecting Ireland — a promising approach for improving rural mobility

The National Transport Authority (NTA) is the statutory body responsible for developing and implementing strategies to provide high quality, accessible, sustainable transport in Ireland. Connecting Ireland is a five-year rural mobility plan developed by the NTA to increase transport connectivity for rural communities in Ireland and provide a viable alternative to the car. Service improvements are made through regional and local bus services complemented by non-conventional transport modes (such as Demand Responsive Transport).

Since 2022 they have rapidly expanded the number of people using services from just under 3 million in 2022 to nearly 6 million in 2024 through their partnership approach to the rural network which includes 15 contracted Transport Coordination Units delivering 150 Regular Rural Services and 1,000 Demand Responsive routes. Prior to this initiative there were huge public transport gaps with 2 in 5 villages not connected to their nearest big town.

The approach entails a clear plan and principles to network planning based on connecting smaller settlements to larger ones and using DRT to reach more dispersed, outlying areas. In addition to increasing the uptake of public transport and addressing crucial gaps in service, the team has observed positive benefits in terms of integration. Examples include positive impacts on planning and transport planning with routes being planned on an equal basis across the country instead of ad hoc service implementation. Also providing a clear understanding of infrastructure requirements across the country such as for bus stops, shelters, information signs, interchange facilities.

Figure 2: Connecting Ireland

Network design and integration

Develop a network of integrated services to improve service coverage and optimise interchange at hubs to ensure a seamless multi-modal journey.

Experts agree that effective network planning is crucial for decarbonising transport and tackling transport disadvantage. They advocate for an integrated approach that is responsive to local needs and conditions, noting that key factors will vary across different parts of the network. This requires consideration of known trade-offs. For example, while population

density is a significant factor in urban network planning and can support financially viable services, it is less relevant for rural network design.

> **To encourage greater use of public transport, operators and authorities must, at the very least, focus strongly on designing and delivering a network of integrated services that are passenger-focused and (ideally) financially sustainable (Mulley and Nelson, 2025a).**

The modal landscape for integration also shifts across the network. Conventional modes, such as rail, trams, and buses, are more common in urban areas, whereas rural areas often have more limited access to these modes. At the rural and local level, there is a social and economic opportunity to integrate the formal transport network with less conventional modes, such as community transport services, to realise TfW's multi-modal vision.

To support improved network design and integration that addresses the key policy challenges outlined above, experts recommended the following step:

- Deciding the appropriate level of service
- Setting network planning guidelines with a clear vision for coverage and frequency to achieve more comprehensive services through the day and week
- Integrating with less conventional transport modes
- Coordinating headways to reduce waiting times and improve convenience
- Establishing strong partnerships and multi-sector collaborations supported by governance arrangements that enable resource sharing.

As highlighted above, there was expert consensus that frequency is often the most important factor for increasing patronage (Currie and Wallis, 2008), but attention to interchange for seamless integration between modes was also a recurring priority. Harnessing network design and integration to increase connectivity and address transport gaps, especially in rural areas, will require trade-offs between local and regional needs, as well as in the following areas:

- **Design:** Figure 2 in Mulley and Nelson (2025b) demonstrates how taking a 'tailor-made approach' to service coverage can be more adaptable to the needs of different users and different times of day, but the 'ready made network' is favoured in network design due to its stability (Nielsen et al., 2005; Mees, 2009).
- **Frequency**: Mulley and Nelson (2025b) highlights that networks prioritising coverage may be better at addressing transport disadvantage, while higher frequency networks are generally more effective at attracting patronage (Currie and Wallis, 2008).
- **Coverage**: Straight, core routes help maximise frequency and are considered a more effective use of resources, but 'this approach may reduce accessibility and potentially

increase transport poverty for those living beyond the reach of core routes' (Mulley and Nelson, 2025b: 5). Core routes can compromise coverage, forcing users to travel further distances to access services. For this reason, a case study explored decided to take a tailored approach in sparsely populated, dispersed areas and worked with DRT services to do so.

- **Interchange**: Quick interchanges are key for attractiveness (no more than 15 minutes) and ensuring success across a passenger's multi-modal journey, but require timetable coordination and co-location.

Mulley and Nelson (2025b) highlight how the modal landscape of rural areas is often overlooked:

> **The design of a multi-modal integrated network should incorporate existing modes and use insights into current service gaps to support the development of new and innovative mobility options. These options include those transferring from an urban context such as lift-share and car-share in some rural towns, while the introduction of shared bikes or e-bikes could help to address first-and last-mile transport challenges.**

To expand the reach of the network and frequency of services in rural areas, **experts recommended greater integration between conventional transport modes and more adaptive and nonconventional modes more common to rural areas** such as:

- Community transport services
- Demand responsive services (DRT) such as Fflecsi
- Electric car clubs such as Trydani
- Taxis and ride share services

Flexibility and a tailored approach to network design are key to tackling transport disadvantage but can be costly for conventional modes such as buses. Nonconventional modes at the local level, such as community transport, should therefore be seen as assets the Welsh Government and TfW can draw on to deliver better value for money and socially essential services. **Integration will require genuine partnerships and, where possible, resource sharing to reach financial sustainability.** For cost effectiveness, it is important to coordinate timetables, routes, and services so that nonconventional modes complement, rather than compete with, conventional modes and help users make a seamless journey with as few interchanges as possible.:

- **Take a whole-journey approach,** with service design and timetabling considering the impact across modes of cancelling a passenger journey.

- **Accurately measure bus ridership,** as some methods can overlook interchange resulting in an exaggeration of bus ridership numbers. Difficulties are discussed in Professor White's think piece (2025).
- **Avoid overlaying DRT and other nonconventional modes onto the network;** timetable and service pattern coordination is essential for complementarity.

As previously highlighted**, innovative mobility options should be explored**. This should be done alongside exploring if there are innovations, or changes, that can be made to contracting for bus franchises to better enable these innovations to integrate with bus. For example, a recent competitive tender in Australia included an e-bike service. Mulley and Nelson (2025b) also highlight Mobility as a Feature, which brings together private, non-mobility partners, and the Triple C idea as ways to maximise and optimise community assets and meet a wider range of user needs through cross-subsidisation (Hensher & Hietanen, 2023).

Understanding local conditions and meeting user needs

Assess local conditions and user needs across groups and geographies to direct resources how and where they are most needed across the network. Bus franchising, and public transport planning, should embed mechanisms for understanding user requirements to tackle gaps in access.

Decisions should be informed by multiple data sources and tested at the local level. Multiple experts raised the need for developing a granular understanding of user preferences that can be disaggregated so networks are designed to solve the specific challenges of the communities they serve:

> **This supports targeted strategies to reduce car dependency and encourage mode shift, while acknowledging that some car users will not give up their vehicle, regardless of incentives (Anable, 2005).**

Mulley and Nelson (2025b) outline how a clear understanding of user requirements is key to avoiding the misalignment of services as noted by Brake et al. (2006). Segmentation of user requirements supports decision-makers to target interventions where most needed. **Requirements and preferences will vary between geographies and user groups, so policy measures, service levels, and resource allocation should be flexible to adjust to different requirements across the network**.

A 2023 Department for Transport study found that confidence in service reliability, convenience, and value for money were the primary concerns of bus users (Department for Transport, 2023). Other factors may be more important for specific target groups. For example, for attracting car users, journey quality is often more important than fares. Another

study found that rural users preferred good service on one day to poorer services daily. Multimodal integration adds planning and governance challenges when making user-based decisions, reinforcing the need for a whole-journey approach.

'Special attention should be given to groups who are often harder to reach and may face multiple forms of disadvantage' (Mulley and Nelson, 2025b: 2). Given the lack of high-quality data in Wales on bus ridership and user requirements, making sure modes and the network are accessible will require additional research and engagement to understand passengers' full journey experiences. This includes needs beyond vehicles and network coverage, to identify the most significant points of intervention. For example, implementing well-lit bus stops with bus shelters and even pavements, or embedding KPIs into contracts relating to driver training for supporting users with protected characteristics. Another proposed KPI was the provision of accessible information and open data to break down barriers to travel.

Intelligent mobility is 'the use of new and emerging technologies to support smarter, greener, and more efficient movement of people and goods' (Mulley and Nelson, 2025b: 3). The term covers a wide range of technological innovations, from autonomous vehicles to seamless journey systems and multi-modal modelling software (Mulley et al., 2019), which can be key to increasing the attractiveness of buses and public transport uptake. **However, while technology can improve integration and support more efficient, greener transport services, some users may lack access or confidence, which can affect uptake and risk entrenching disadvantage.**

Experts warned of the digital divide. Decisions should be made about the appropriate level of technology to apply, especially in light of accessibility and connectivity challenges in rural communities (Mulley and Nelson, 2025b). Digital systems can create barriers for certain user groups, such as older people, as they require skills or devices that certain demographics lack – this can create or reinforce a digital divide. Research should be conducted to understand levels of digital literacy and access to technology to inform decisions about the right level of technology or support to provide across the network. This research could be commissioned or carried out in partnership with local communities and institutions.

Financial sustainability and affordability

Achieve financial sustainability and affordability through pricing initiatives coupled with removing the financial penalties of mode interchange, as far as possible, by rolling out integrated ticketing.

To achieve better value for money, buses face a unique challenge compared with other modes, as driver wages are a significant fixed operational cost. Providing a good service

frequency, even with lower demand, is essential for increasing bus patronage. While some cost savings can be achieved through bulk purchasing of operational goods, such as vehicles, buses carry fewer passengers per trip, resulting in a higher cost per passenger due to the fixed cost of the driver being spread over fewer fare payers when compared with modes such as rail. One expert advised that bus service planning should focus on achieving economies of density rather than economies of scale, though this can be more difficult in rural, dispersed areas. Crucially, strategies to improve economies of density and value for money should be implemented alongside measures to boost and maintain the attractiveness of bus driving as a career. Multiple cases noted the need to improve driver working conditions due to shortages.

Experts agree that integrated ticketing and fares are crucial for increasing public transport uptake, aligning with TfW's One Ticket ambition. Balancing costs to achieve value for money is a recognised challenge for rural areas. Key strategies proposed include: (1) strategically designing bus franchise packages to cross-subsidise less profitable routes (recommended by experts and supported by practice), and (2) integrating conventional transport modes with less conventional, more flexible modes. Additional strategies raised in policy challenge sessions for balancing costs in rural, dispersed areas include:

- **Optimise vehicle size to local need and take steps to maximise bus occupancy across the service** (White TP). The latter will require efforts to spread out demand to spread out peak requirements to lower costs.
- **Integrate bus franchising with school services**. This was a recurring theme across experts engaged and is evidenced through the case study snapshots.

Experts reiterated that improving rural mobility will require implementing and coordinating a range of measures rather than relying on a single approach. Professor White (2025) highlights that franchising can support increased bus occupancy and modal shift when combined with wider policies to reduce car use, as demonstrated in London through coordinated service expansion, integrated fares, and low car ownership in a growing population. Early evidence from Jersey and Greater Manchester suggests similar potential, especially when education-related travel is included in service planning (ibid.).

The base service for rural areas is often the school service (Mulley and Nelson, 2025b), which can also benefit other users and help optimise resources. If strategically planned, school service vehicles can continue to be used by the network during off-peak times. Professor White's Technical Note 1 argues how in rural areas: :

> **The most energy-efficient bus services are likely to be those carrying large numbers of schoolchildren over distances that are impractical for walking (White, 2025).**

Many cases included school services within their bus franchising networks, with Jersey seeing significant ridership growth by doing so. Measures were also proposed to boost ridership among children and younger people and to encourage active and public transport use, including promoting the role of public transport through the school curriculum. Multiple cases provided reduced fares for younger users and children as a long-term investment and key demand-side measure.

Overcoming uncertainty through partnership and engagement

Partnerships and collaborations will be vital to overcoming inevitable sector uncertainties linked to decarbonisation and for enhancing understanding of local conditions and user requirements.

Experts emphasised the crucial role that partnership can play in overcoming some of the challenges the Welsh Government will face in their efforts to decarbonise transport and tackle transport disadvantage. Mulley and Nelson (2025b) highlights the value of genuine multisector collaborations to address coverage gaps and increase the accessibility of the network. Collaboration can also support meaningful engagement to better understand user needs. Connecting Ireland (Figure 2 above) demonstrates a partnership approach to improving rural mobility. While there is a strong evidence base for supporting collaboration for service and network design, using partnership to overcome the various trade-offs and implementation challenges associated with decarbonising transport is a more emerging area of practice.

A recurring example concerns fleet decarbonisation:

> **A substantial body of literature exists on the technical and economic aspects of zero-emission buses (ZEBs). While battery-electric buses offer a less capital-intensive option than hydrogen vehicles, their economic viability is challenged by high battery replacement costs and uncertainty regarding energy efficiency and degradation. Although electric buses perform well in life-cycle analyses (assuming clean energy sources), they may experience efficiency issues in colder climates (Onat et al., 2015; Mulley and Nelson, 2025a)**

Two case study experts highlighted the need for careful analysis of the vehicle fuel type for different environmental conditions. For example, hydrogen buses currently outperform electric buses on steeper terrain. One case reported an initial delay in their ability to roll-out electric vehicles in certain areas because of inadequate electric bus performance at the time. Another noted unexpected performance issues during colder months, resulting in significant network disruptions. All cases reported that having trusting partnerships with operators

enabled authorities to respond quickly to such challenges. To better manage uncertainty, one case suggested piloting vehicles and technology in realistic conditions before incorporating them into franchising models.

The emerging nature of decarbonisation technologies, and the associated risks, is influencing the length, risk allocation, and structure of bus contracts. Contractual changes and adaptations to competitive tendering approaches are occurring even where operators typically own both fleet and depots and have a high degree of autonomy (e.g. the Netherlands) due to risks such as asset amortisation (Hensher, 2021). One case study expert explained that their tendering cycle had to be adjusted, as operators now require more time to procure approved vehicles and authorities need time to ensure depots have adequate power supplies, which is generally easier in urban than rural areas. This case added three months to their transition period between contracts to enable sufficient time between contracts and operators (if relevant).

Experts emphasised the tactical role of the regulating authority in assessing power supply availability and considering broader impacts on the energy grid. Professor White highlighted the opportunity for linking or embedding assessments into Local Area Energy Plans across Welsh local authorities (White, 2025). Ruter and Västtrafik are two authorities that have developed partnership approaches that share the risk of decarbonisation with operators. While their approaches to infrastructure transfer at the end of franchise contracts differ, both authorities take responsibility for providing the below-ground infrastructure, while operators install and maintain above-ground assets, such as charging stations. Operators in both these cases own their fleets, which are procured based on clear specifications and with authority approval. Ruter also includes a contractual option to purchase operator-owned infrastructure at the end of a contract. Another case noted that such options can help avoid supply chain and procurement delays.

Mulley and Nelson (2025a) make the case for exploring innovative approaches to contracting that enable collaboration with non-mobility suppliers. For example, the Welsh Government and TfW could explore how joint franchising tenders could help to manage risks especially if/where operators own depots that might need to be updated (this could be relevant for rural or urban depots).

> **For a successful outcome, strong collaboration is required between operators, energy suppliers, and manufacturers in a supply chain approach – particularly as new technology brings with it uncertainty. In a mixed regime of infrastructure ownership, responsibilities must be clearly defined and the risks for each party are well understood within the contract, adding to its complexity (Mulley and Nelson, 2025a: 7)**

Hensher (2022) proposes authorities shift to adopting a competitively tendered supply chain approach, as shown in Figure 1 of the ITLS think piece (Mulley and Nelson, 2025a). Mulley and Nelson argue the value of this approach is viewing the challenge holistically as an interconnected supply chain issue instead of as three separate exercises, given the new and emerging technological landscape for decarbonisation. With this approach, various suppliers bid alongside the operator for specific roles in the contracted partnership. Some cases from comparable regulatory contexts have begun experimenting with similar models, indicating a promising area for further research. For example, Ruter and Västtrafik now involve energy companies and suppliers in tendering, with one authority hosting a 'speed-dating' style event during the tendering process to support all interested operators to connect with bus and energy suppliers.

> **Maintenance skills will also need to evolve, with a focus on battery issues (electric buses) and fuel cell technology (hydrogen buses). Upskilling of maintenance staff needs to be programmed alongside the transition to these vehicles to ensure a well-managed fleet. In New South Wales, Australia, this is being achieved through close collaboration between the bus industry association and further education institutions to develop vocational courses in ZEB maintenance (Mulley and Nelson, 2025a: 7).**

Additional opportunities for partnership to support bus decarbonisation include: (1) with technical colleges to provide green skills and training for operators and maintenance staff, (2) between operators and universities to incorporate technological innovations and improve services or networks, and (3) with regional actors. One engaged case study actively encourages such partnerships at the tendering stage through award criteria.

Conclusion

The evidence surfaced and discussed during the Spotlight series demonstrates that a range of approaches to tendering and contracting bus services exists across public transport systems. Rather than replicating existing approaches and models to develop bus franchising in Wales, expert evidence encouraged the Welsh Government and TfW to:

- **Take a context-sensitive approach to designing the Welsh bus franchising model**. Overall success will depend heavily on how key decision areas and trade-offs highlighted in this report are implemented and adapted to local conditions. Key insights and learnings from existing models must be translated to the Welsh context. Simplistic distinctions and conclusions about governance and contracting approaches should be avoided, as existing models are often a complex and evolving combination of decisions.
- **Facilitate a well-planned and managed transition to bus franchising** which will require: 1) deep engagement with operators to harness their commercial knowledge and intelligence, and 2) building competence as a bus regulator and centralised authority, with sufficient time, resources, and support to match the scale of the challenge.
- **Develop a clear, collaborative bus franchising model underpinned by strong governance capable of continuous adaptation and improvement.** Experts emphasised the importance of: (1) developing trusted partnerships with operators through continuous engagement, and (2) ensuring clear contracts and governance that avoid excessive formalism and over-management. Achieving these aims will require high-quality data and information systems overseen by a well-equipped transport authority.

To address the key policy challenge areas explored through the Spotlight series, **experts advised the Welsh Government and TfW to coordinate a multi-modal approach to network and service planning that can effectively tackle transport poverty and serve rural communities**. Strategies for achieving modal shift from cars to public transport should focus on reducing car usage rather than eliminating it entirely. The main expert recommendations in relation to bus franchising in the context of net zero, increasing rural mobility, and addressing transport disadvantage are listed below and detailed in Part 3 of this report:

1 Increase the attractiveness of bus travel to grow ridership and encourage modal shift to public transport.

2 Establish a clear strategic vision – including goals, purpose, and principles – to guide planning and decision-making.

3 Improve network design and integration to support seamless travel across conventional and nonconventional transport modes.

4 Assess local conditions and user needs across groups and geographies to target resources where they are most needed.

5 Ensure financial stability, including measures to improve affordability.

6 Develop partnerships to overcome sector uncertainties.

Key success factors for contracting

Every bus franchising model must make key decisions about the contract itself and the procurement procedure (van de Velde, 2025). To inform the first generation of contracts, Part 2 of the report summarises the main contracting and awarding findings, supported by practice examples where appropriate. Table 3 below provides an overview of some of the main findings presented in Part 2, using van de Velde's (2025) framework on the *Key choices in designing contracting regime* (see Appendix 1).

The contract is a critical component of any bus franchising model and was identified as a key mechanism for steering and aligning the market to achieve policy ambitions. Experts advised the Welsh Government and TfW to **create a clear, pragmatic, and adaptable contract aligned to market conditions**. They also noted that it is unlikely the first attempt at contracting will be perfect, and cautioned against being overly rigid, prescriptive, or formal, as no contract can account for every eventuality. Instead, the Welsh approach should remain flexible and adaptable, working with operators to allow the right model for Wales to evolve over time.

Decision area	Key points
Procurement procedure	
Division of services	• Dividing bus franchising services requires a careful balance of contract size and duration to attract operators, promote fair competition, and ensure market diversity. • Strategic bundling of routes can support socially necessary services through cross-subsidisation. • Contract simplicity and appropriate sizing are essential for engaging SMEs, especially in rural areas. • Longer contract lengths can provide stability and encourage operator investment, but contracts should allow for adjustments

	during the contractual period to remain responsive to changing needs. • Evidence suggests that regular tendering cycles, in terms of frequency or periodicity, benefit both the authority and operators by enhancing competence on both sides and providing consistent tendering opportunities.
Choosing the winner	• Extensive and ongoing market engagement before and throughout the tendering process is recommended. • Awarding criteria should be flexible and evolve over time to remain relevant, fair, and aligned with policy goals and service expectations. • Approaches to awarding criteria varied across cases and often evolved in response to other factors such as whether the contracting model was more specified or functional. • Experts cautioned against awarding contracts based solely on price to recognise that the lowest bid may not always deliver the best value. Especially with the uncertainties surrounding decarbonising transport, experts emphasised the need for the contract and approach to awarding to consider disruption costs, quality, and mitigate the risks around transition.
Managing the competitive market	• Evidence confirms the importance of adopting strategies to enable smaller operators, though tactics varied and should be responsive to local market conditions. A key mechanism for attracting and retaining smaller operators is balancing risks with contract size and simplifying the contracting approach and process to encourage participation. • Experts recommend tailoring KPIs to rural contexts, focusing on metrics that drive meaningful outcomes – such as on-time performance to support passenger interchange – rather than taking a standardised approach. • Experts suggest that 'healthy' competition is defined by the quality of bids rather than the quantity of bidders. • Experience from other public transport authorities suggests that active coordination across authorities, to standardise specifications and procedures, can lower barriers to entry into the

	Welsh market and enable operators to bid or scale more easily across regions in Wales and beyond.
Contracting	
Asset management and ownership	• No single approach to asset ownership was identified across cases, although there was greater consensus on transport authority ownership of depots, especially those deemed 'strategic'. Authority ownership of depots can reduce incumbent advantage during tendering and support broader infrastructure needs, particularly in the context of decarbonisation. • In several cases, asset ownership was used to accelerate market alignment with strategic policy goals, such as fleet electrification or enabling authorities to redeploy assets more easily in response to urgent or temporary needs. • All cases incorporated clear specifications for assets into their contracts, with the majority highly specified at the tendering stage. Specifications should be based on thorough research into market conditions and local need assessments. • Where transport authorities owned depots, depot management responsibilities were clearly delegated to operators through the contract with specifications and performance management measures. • Experts agreed it was important to provide the customer with a unified brand, marketing, and digital experience.
Personnel	• Skills and training were most frequently viewed as the responsibility of operators, but contracting was seen as a mechanism for authorities to improve working conditions. • Evidence advises that contracts should include clear specification of transition plans and handover of staff. Experts highlighted additional personnel and transition-related costs for authorities that should be considered since the disruption costs borne by authorities are typically unaccounted for, such as staffing issues/changes and service disruption during the transition between contracts. • The skills, capacities, and vision of an authority will also heavily influence the contracting regime. Contracting should be calibrated to the authority's skills and capacity. Upskilling staff

	and improving authority competence overtime is a key success factor for Wales' transition to bus franchising.
Service definition	• In most cases, the responsibility for network design and service specification resided with the transport authority. • All cases provided some flexibility during the contract period for operators to propose service changes, with the service variation process clearly outlined in the contract. • Service planning guidelines should be developed collaboratively and supported by strong governance. Guidance should also be developed to standardise and guide wider stakeholders, given the strong inter-relationship between network planning and wider infrastructure plans.
Revenue	• Fares were often viewed as a strategic responsibility, with cases showing that retaining this control enabled authorities to support passengers during difficult times. • Experts emphasised the value for passengers of a single unified fare for their entire journey, delivered either via a ticketing system or by a smartcard. • Centralised control over fares was seen as important for multi-modal integration and achieving a unified fare/ticket to avoid penalising passengers for interchange during their journey. • Evidence suggests that pricing initiatives can help increase ridership, but should fit within a holistic, multi-modal strategy for increasing uptake of both public and active modes of transport and for tackling transport disadvantage.
Allocation of contractual risk	• The primary role of a contract is risk allocation. Experts emphasised the need for balanced and fair risk allocation to enable operators to focus on operational delivery. • Incentives embedded in a contract and tied to KPIs can transfer some operational risk to operators but should be clear, measurable, and achievable, with defined monitoring and penalties. • The majority of authorities engaged in the series assume a combination of revenue, inflationary, and financing risks and shared different approaches to indexation. In many cases,

	operators are encouraged to invest at their own risk if they identify an opportunity for additional investment. • Some instances of risk and/or benefit sharing between the authorities and operators were identified.
Quality management	• Many cases used longer-term quality incentive gross-cost contracts. A potential downside of gross-cost contracts is imbalanced risk allocation, with too much risk carried by the authority. • Embedding performance measures and quality incentives into the contract is a key mechanism for rebalancing operational risks, but these should be calibrated to market conditions and form part of a comprehensive performance management strategy with appropriate reporting, monitoring, penalties, and bonuses. • Experts stressed that performance management is crucial and identified striking the right balance between incentives (bonuses or 'carrots') and disincentives (penalties or 'sticks') as a key success factor. • There is no one-size-fits-all approach to incentives and quality management, but these areas should be clearly outlined in the contract. Most authorities set standards or thresholds for operator performance, with consensus on the importance of reliability metrics for passenger growth, combined with penalties for lateness and cancellations. • Embedding incentives in contracts can provide strategic leverage for steering and aligning the market. Experts suggested including both vehicle-related KPIs to guide operator behaviour and monitor network performance (e.g. emissions), as well as operator performance metrics. • There is scope to look beyond the authority–operator relationship to raise quality and performance. For example, multiple cases make performance data publicly available to drive improvement and identify issues early. Operators can also conduct their own benchmarking independently of the authority. • Although there was no clear expert consensus on specific performance measures or quality incentives, there were key recommendations to inform design decisions:

- Keeping performance management simple is beneficial for the authority and operators.
- Performance measures should be measurable, applied, and match local needs.
- Performance management should be adaptable and fair as some factors may be outside of operator control.
- Communication lines during contract management will be key and should be adequately resourced.
- Adequate management requires ongoing, real-time high-quality data that is shared between the operator and authority.
- Incentives and disincentives should be embedded through the contract award to maintain quality standards through transitions or contractual transfers.

Acknowledgements

Expertise was instrumental in shaping our approach to the evidence base and key findings. This report would not have been possible without the support of all the expert contributors who engaged and shared their wisdom during the scoping and delivery phases of this research. We particularly thank all the practice-based expert contributors, and the teams that supported them, for generously sharing their knowledge, insights, approaches, and key learnings through presentations, and for helping us develop the final high-level snapshots published alongside this report. We hope this report and its outputs are mutually beneficial and help to inform your work in the future.

We also acknowledge and thank the core group of officials from Transport for Wales and the Welsh Government for their ongoing engagement, thoughtful guidance, and commitment to deeply engaging with the evidence and expertise provided through the Spotlight Series. Your collaboration was invaluable.

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Appendix 1

Key choices in designing a contracting regime

Source: van de Velde, 2025

Procurement procedure	Contracting
How to divide the services in contractual units: • Choosing the allotment: from one route to a bundle of routes or a whole network • Choosing the duration of contracts: linked to asset amortisation or shorter • Optimising the periodicity of competitive opportunities: frequent opportunities (monthly), yearly to every 15 years **How to choose the winner:** • Choosing the type of awarding procedure (competitive dialogue, negotiated procedure, simple procedure, direct awarding, etc.) • Composing the awarding model items (price, quality guarantees, improvement proposals on costs and revenues,…), choosing the scoring and weighing of each item **How to manage the competitive market:** • Market creation / management (depending on the local starting position) • How to invite potential competitors (pre-selection, qualification system, framework agreement) within the procurement regime • How to control competition (control of dominant positions)	**Assets (vehicles, garages, IT systems)** • Specifications • Ownership, investment and transfer regime **Personnel** • Skills • Transfer of personnel **Service definition** • Service development responsibilities • What incentives? What works? • Flexibility of the order during the contract **Revenues** • Fare definition • Revenue management **Allocation of contractual risks** • Costs, revenues, investments, external factors • Mitigating clauses (indexation, risk sharing) **Quality management system** • Categories of incentives • Incentive regime (monitoring and continuous improvement procedures, contract management

	attitude, evaluation meetings, penalty calibration etc.)

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