

Subsidy Advice Unit Report on the proposed Bus Network Support Grant subsidy scheme

Referred by West Midlands Combined Authority

11 May 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 20 March 2026, West Midlands Combined Authority (WMCA) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to the proposed Bus Network Support Grant (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates WMCA's assessment of compliance (the Assessment) of the Scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to WMCA. It does not consider whether the Scheme should be implemented, or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 The Assessment is structured to address each principle in turn, and our evaluation follows that structure.
- 1.5 In our view, WMCA has considered at high level the compliance of the Scheme with the subsidy control principles. In particular, the Assessment provides a clear, well-argued policy objective for the proposed Scheme.
- 1.6 However, we have identified the following areas for improvement:
 - (a) the Assessment describes some equity benefits which appear to form a key part of the rationale for the Scheme – in our view the Assessment should clearly identify relevant equity objectives, and then describe and evidence them in line with the Statutory Guidance (Principle A);
 - (b) the Assessment should further explain its approach to demonstrate compliance with Principle B. In particular, the Assessment should more fully explain how the analysis of the necessary subsidy level under the Scheme was conducted, including how WMCA scrutinised information received from National Express West Midlands (NXWM) (Principle B);
 - (c) the Assessment should better explain its conclusion that a very substantial reduction of current mileage is the most likely counterfactual scenario by

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed Bus Network Support Grant subsidy scheme by West Midlands Combined Authority - GOV.UK.](#)

³ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

better detailing how the expected route cuts were determined, and setting out the assumptions and modelling approach utilised (Principle C);

- (d) the Assessment should address if the Scheme gives NXWM any competitive benefits to enhance its position when bidding ahead of the franchising procurement (Principle F);
- (e) the Assessment should weigh the benefits of the Scheme against its identified negative impacts, rather than the negative impacts of the 'do-nothing' scenario. The Assessment should, where possible, quantify the beneficial impacts of the Scheme on its policy objective, and the negative impacts arising from the Scheme.⁴ The Assessment should then detail how benefits and negatives were weighed against each other and explain more clearly how it reached its conclusions (Principle G); and
- (f) in relation to the requirements for delivery of a service of public economic interest (SPEI), the Assessment should provide more information about WMCA's established review processes that will ensure the Scheme remains limited to the minimum amount necessary.

1.7 The Assessment would generally benefit from more closely addressing how each of the subsidy control principles is satisfied, following the Statutory Guidance, and it should ensure that all evidence relied on is explained and included or referenced within the Assessment.

1.8 We discuss these areas below, along with other issues, for consideration by WMCA in finalising its assessment.

The referred scheme

1.9 WMCA has proposed a subsidy scheme of up to £145.2 million to support operators of commercial registered local bus services in the West Midlands between 1 June 2026 and 31 March 2029. The Scheme will follow on from two previous schemes:

- (a) the West Midlands Bus Recovery Grant scheme, which aimed to address the impact of the pandemic and subsequent cost of living crisis, and ran until 30 April 2025;⁵ and
- (b) the first West Midlands Bus Network Support Grant scheme, which aimed to continue maintaining network stability. This scheme was initially intended to

⁴ [Statutory Guidance](#), paragraph 3.118.

⁵ [Referral of the proposed West Midlands Bus Recovery Grant by West Midlands Combined Authority](#).

run between 1 May 2025 and 31 March 2026 and was extended under a permitted modification to 31 May 2026.⁶

- 1.10 The main objective of the Scheme is to ensure bus operators can maintain a stable bus network whilst the region transitions to providing the network through tendered franchises. The Mayor of the West Midlands took the decision to franchise the local bus network across the region following the conclusion of its Bus Franchising Assessment in May 2025. WMCA states that a key reason for the decision to franchise is that the current model has not delivered the required outcomes in the region, as evidenced by its need to provide grants to maintain services previously operated on a commercial basis.
- 1.11 Franchising is expected to reintroduce full competition for the market through competitive franchise contracts. WMCA expects to franchise the bus network in the West Midlands in steps, to be completed by the expiry of the Scheme on 31 March 2029.⁷
- 1.12 The Scheme will be open to local bus operators providing registered local bus services, where operated on a fully commercial basis, in the West Midlands, with operators agreeing in turn to maintain their registered networks. The Scheme incorporates a reduction in network kilometres of up to 2% in year one (with a mechanism to agree limited further reductions in services). Funding will reduce throughout the Scheme's duration as franchising is progressively implemented.
- 1.13 Grants will be allocated to operators based upon the proportion of the total network miles scheduled to be operated in each four-week period. NXWM will be the largest beneficiary of the Scheme, as it provides over 90% of relevant services in the area.
- 1.14 WMCA explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.⁸ In particular, the Scheme allows for provision of subsidy awards over £25 million.

⁶ [Referral of the proposed West Midlands Bus Network Support Grant scheme by West Midlands Combined Authority.](#)

⁷ WMCA has commenced the procurement of the initial franchises, which will be undertaken in three tranches. These are due to mobilise for operation from October 2027, July 2028 and March 2029 respectively.

⁸ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment. WMCA structured its Assessment to address each principle in turn, and our evaluation follows that structure.

Principle A

2.2 Under Principle A, subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns).⁹

Policy objectives

2.3 The Assessment states that the Scheme pursues the policy objective of 'maintaining a comprehensive and efficient bus network for the West Midlands'.

2.4 It sets out that reduced patronage and increased costs mean that only approximately 45% of the pre-COVID bus network (measured in mileage) is now considered to be commercially sustainable. It explains that without financial support, measures such as significant service reductions would be required to restore financial stability.

2.5 The Assessment explains that it is essential for the West Midlands to retain a comprehensive and connected network whilst the region transitions to a competitively tendered franchise model. It sets out that the success of franchising depends on WMCA being able to specify the network that it wishes to franchise and providing reliable information to promote competition amongst interested bidding operators; this will ultimately help prevent a greater level of subsidy being required in the long term.

2.6 It argues that the Scheme will ultimately support the transition to franchising by enabling a more streamlined procurement process, ensuring consistency and accuracy of data to better promote competition (which we understand to mean, for example, that bidders will have access to relevant cost and revenue data for the services to be franchised), reducing risks to WMCA, providing greater stability, and increasing the attractiveness of franchised contracts.

2.7 The Scheme will also support wider policy objectives which are outlined in the region's Local Transport Plan.¹⁰ These include:

⁹ Further information about Principle A can be found in the [Statutory Guidance](#), paragraphs 3.33–3.56 and the [SAU Guidance](#), paragraphs 3.6–3.10.

¹⁰ [Reimagining transport in the West Midlands | Transport for West Midlands](#).

- (a) encouraging behavioural change away from private car use;
- (b) encouraging more people to walk, wheel, cycle and scoot;
- (c) creating accessible and inclusive places by enabling older residents, young people, women, low-income households, unemployed residents and students who are more likely to use the bus network to reach jobs, education, healthcare, retail and social activities;
- (d) sustaining a connected, multi-modal transport network in the West Midlands;
- (e) ensuring a safe, efficient, and reliable transport network; and
- (f) delivering a green transport revolution.

2.8 In our view, the Assessment clearly describes and evidences the specific policy objective of the Scheme.

Market failure

2.9 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.¹¹

2.10 The Assessment briefly identifies factors which would be associated with a reduction in the bus network in the West Midlands, such as increased congestion and air pollution, and explains that these would not be factored into the decisions of bus operators to potentially cut services. It also notes the social and economic impacts of any reduction in services, such as passengers suffering from less reliable and complete connections.

2.11 The Assessment explains that a less reliable and comprehensive bus network will push residents towards higher-carbon, more congesting transport modes and make public transport as a whole less cohesive and less attractive.

2.12 The Assessment states that the Scheme will 'remedy market failures' as an effective bus network will attract investment by enabling access to a wider workforce, positively change public behaviour, reduce reliance on cars and create environmental benefits in terms of air pollution and congestion.

2.13 In our view, the Assessment describes some externalities associated with the bus network in the West Midlands. However, these are not clearly identified and explained as market failures within the meanings set out in the Statutory Guidance. The Assessment could more clearly identify, describe and evidence the

¹¹ [Statutory Guidance](#), paragraphs 3.36–3.51.

specific market failure) which the Scheme seeks to remedy (such as positive/negative externalities¹²) in line with the Statutory Guidance, rather than outlining the wider objectives and benefits of the Scheme.

Equity Objective

- 2.14 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.¹³
- 2.15 The Assessment states that an effective bus network is likely to have positive outcomes on groups of people from lower socio-economic backgrounds including women, ethnic minorities and those with disabilities in terms of access to job and educational opportunities, social mobility and activities, and health outcomes. It cites a range of statistics to demonstrate that older residents, young people, women, low-income households, unemployed residents and students are more likely to use the bus network, and that these groups would therefore be disproportionately affected by a reduction in the network.
- 2.16 In our view, the Assessment describes some equity benefits that the Scheme seeks to bring about, which appear to form a key part of the rationale for the Scheme. However, these are not clearly identified and articulated as equity objectives within the Assessment, alongside relevant market failures. The Assessment should clearly identify these as equity objectives and then describe and evidence them in line with the Statutory Guidance.

Principle B

- 2.17 Principle B requires that subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it.¹⁴
- 2.18 The Assessment details that the Scheme is limited to the level necessary to maintain an economically and socially acceptable bus network, which enables WMCA to deliver its statutory responsibilities and wider policy objectives. Experienced network planning officers and WMCA's financial team undertook this assessment, supported by open-book analysis of NXWM's accounts (as the largest operator in the region and therefore expected to receive the majority of the subsidy under the Scheme). It also included discussions with other operators providing commercial local bus services.

¹² Further information about externalities can be found in the [Statutory Guidance](#) (paragraphs 3.37–3.41, paragraph 16.14).

¹³ [Statutory Guidance](#), paragraphs 3.52–3.56.

¹⁴ Further information about Principle B can be found in the [Statutory Guidance](#), paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18.

- 2.19 WMCA told us that, based on information provided by NXWM, it has modelled the cost of providing the agreed level of bus services minus forecast revenues, allowing for a low profit margin. The subsidy is then apportioned across all eligible services and operators based on scheduled bus mileage (adapted for any shortfall in realised mileage). The Assessment states that the terms and conditions include a clawback mechanism which allow for the subsidy to be recalled in the event it was not required, and that a profit-sharing mechanism will apply if profits exceed a 4.5% margin.
- 2.20 The Assessment states that providing less funding would directly result in fewer services being delivered (and the negative consequences thereof), and that the proposed funding is therefore proportionate to the policy objective. It further states that protecting the bus network through the provision of the Scheme will ensure the bus market remains viable and stable during the transition period to franchising, while creating the conditions necessary to deliver greater competition, improved services, and long-term financial sustainability.
- 2.21 With regard to alternative approaches, the Assessment references a value for money assessment undertaken by WMCA, which estimated that the cost of tendering the services which could be lost without intervention would be substantially higher than the proposed cost of the Scheme. The Assessment details other potential constraints on tendering (see paragraph 2.38) which could further increase its cost or reduce its effectiveness.
- 2.22 In our view, the Assessment describes at a high level that the Scheme is proportionate and limited to the minimum necessary to achieve its specific policy objective. However, while it discusses many elements of the scheme which could demonstrate proportionality, and the minimum necessary, it should further explain its approach in the Assessment document to demonstrate compliance with Principle B. In particular, it should more fully explain how the analysis of the necessary subsidy level under the Scheme was conducted including how WMCA scrutinised information received from NXWM.

Principle C

- 2.23 Principle C requires that subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective.¹⁵

¹⁵ Further information about Principle C can be found in the [Statutory Guidance](#), paragraphs 3.60–3.73 and the [SAU Guidance](#), paragraphs 3.11–3.13.

- 2.24 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).¹⁶
- 2.25 The Assessment explains that, without the Scheme, operators would likely need to cut approximately 49%¹⁷ of current mileage to reduce their cost base below assumed income levels, resulting in an annual patronage loss of around 65.6 million trips (27% of the current total). WMCA told us that this reduction was based on estimates undertaken by NXWM, which it had critically reviewed based on its knowledge of the network, optimisation of bus operations, and its ongoing access to NXWM’s accounts.
- 2.26 The Assessment states that NXWM would not automatically cut all these services immediately without support, but would move in stages; it explains that the impact of service reductions would be assessed at each stage, to understand the effect on the commerciality of the network, with future changes adjusted accordingly.
- 2.27 The Assessment explains that in the absence of the Scheme, NXWM could seek to maximise revenues by increasing fares and exiting the current ‘nBus’ multi-operator scheme,¹⁸ with other operators in the region likely to follow with fare increases in this scenario. It states that a gross fare increase in the region at 25% or higher would mean a smaller network loss of 28% of mileage but would still result in an annual patronage loss of 28% (56.9 million trips) due to the combined impact of the fare increase and network loss. WMCA expects this approach to be unsustainable in the long term, with a cycle of decline as passengers may progressively move to alternative transport options.
- 2.28 The counterfactual assessment draws on information from NXWM regarding expected route reductions in the absence of the Scheme, which WMCA told us it had reviewed, and on modelling produced by Transport for West Midlands (TfWM)¹⁹ of the impact, as well as market engagement with existing and potential operators. This market engagement found a lack of interest in entering the current deregulated market from potential new operators.
- 2.29 In relation to the change in economic behaviour, the Assessment sets out that the Scheme allows NXWM and other operators to keep running a major part of the existing network of bus services which would otherwise be substantially cut. This in turn gives time for several initiatives implemented by WMCA through its Bus

¹⁶ [Statutory Guidance](#), paragraphs 3.63–3.65.

¹⁷ This calculation is based on self-reported information from NXWM and is used as a proxy for all operators given that NXWM is the majority operator in the region.

¹⁸ See [nNetwork, nBus and nTrain tickets | Transport for West Midlands](#).

¹⁹ TfWM forms part of the WMCA; [Who we are | Transport for West Midlands](#).

Service Improvement Plan²⁰ to fully mature. These initiatives sit alongside its wider initiatives to support the long-term sustainability of the bus market (including some £564.7 million of capital investment), aiming to stabilise, retain and grow patronage as the region moves towards a franchised bus model. The Assessment states that the terms and conditions of the Scheme will ensure that operators do not reduce mileage to the network contrary to their obligations without permission, with the option for allocated subsidies to be withdrawn or reallocated where operators act contrary to these obligations.

- 2.30 In our view, the Assessment explains at a high level how the Scheme would change the beneficiaries' economic behaviour and how it brings about changes that would not have occurred absent the subsidy. However, the Assessment should better explain its conclusion that a very substantial reduction of current mileage is the most likely counterfactual scenario by better detailing how the expected route cuts were determined, setting out the assumptions and modelling approach utilised.

Principle D

- 2.31 Principle D sets out that subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.²¹
- 2.32 The Assessment explains that WMCA established through open-book accounting that NXWM would make a significant loss if it continued to serve its bus network at current mileage (already reduced) without a subsidy scheme and as a result, would have to substantially reduce its bus mileage to demonstrate to auditors that it was a going concern.
- 2.33 It further explains that in this scenario, NXWM would determine which services it intends to de-register, resulting in significant changes to the structure and coverage of the network, and which could undermine the transition to a franchised model. The Assessment explains that the Scheme, in combination with other measures, would enable NXWM and other operators to maintain a stable network and support the transition to a franchised bus network.
- 2.34 In our view, the Assessment explains how the Scheme brings about changes that would not have occurred absent the subsidy. In particular, it demonstrates how it will allow operators to fund bus services that they would not have funded in the absence of the Scheme.

²⁰ Bus Service Improvement Plans set out the vision, objectives and delivery plans of local transport authorities and their partners on how to improve local bus services; funding is awarded by the Department for Transport following assessment of BSIPs. [Bus service improvement plan - GOV.UK](#).

²¹ Further information about Principle D can be found in the [Statutory Guidance](#), paragraphs 3.60–3.73 and the [SAU Guidance](#), paragraphs 3.11–3.13.

Principle E

- 2.35 Under Principle E, subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means. Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.²²
- 2.36 The Assessment explains that WMCA has considered the following means to achieve the policy objective:
- (a) tendered contracts to replace any cancelled routes; and
 - (b) the proposed Scheme.
- 2.37 The Assessment sets out at a high level why tendered contracts were not seen as a viable option. WMCA separately told us that it undertook a value for money assessment comparing the cost and feasibility of tendering withdrawn services (based on NXWM's estimates, see paragraph 2.25) against the option of continuing subsidy support. It calculated the costs for tendering withdrawn services based on cost rates realised in its recent experience of tendered contracts, ultimately concluding that a tendered approach would be more expensive.
- 2.38 The Assessment also identifies a number of potential constraints on opportunities for tendering, including limited operator capacity to deliver services at short notice, operator appetite, little interest in expansion or new entry, constraints in fleet availability, depot capacity and driver recruitment, as well as reduced competitive tension where fewer operators are able to bid for larger portions of the network. It also highlights particular challenges in replacing evening and Sunday services. WMCA told us these factors could lead to increased costs in tendering these services, and it concluded that a full tendering approach was unlikely to deliver a viable or competitive alternative.
- 2.39 In our view, the Assessment demonstrates that WMCA has considered tendered contracts as an alternative approach and demonstrates why the Scheme is a more appropriate option. However, in order to demonstrate that the Scheme is the most appropriate tool to achieve the policy objective, the Assessment could explain why more alternatives to the Scheme were not considered.

²² Further information about Principle E can be found in the [Statutory Guidance](#), paragraphs 3.57–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10.

Principle F

2.40 Principle F requires that subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.²³

Design of subsidy to minimise negative effects on competition and investment

2.41 The Assessment details the following Scheme design elements aimed to minimise potential distortions to competition:

- (a) The Scheme is time-limited; it is temporary to retain the current bus network while the region moves to a franchise model.
- (b) The funding package is fair and transparent in allocation, as funding is distributed among all commercial operators to maintain existing services.
- (c) The Scheme includes revenue and cost conditions. These terms and conditions are designed to require operators (particularly NXWM as the largest operator) to reduce their costs and increase revenue, thereby limiting the funding gap.

2.42 The Assessment explains that the impact of the Scheme would be minimal as new entrants are not expected to be ready to enter the market, noting that UK operators are generally preparing for franchised markets rather than competing in the de-regulated West Midlands market.

2.43 In our view, the Assessment details some of the design features of the Scheme, and at a high level how those contribute to minimising any negative effects of the Scheme on competition and investment within the United Kingdom. However, while some features of the scheme are discussed, the Assessment could consider further how these contribute to minimising distortions to competition. For example, it could explain how mechanisms included in the scheme (such as clawback and profit sharing) are intended to minimise distortions to competition.

Assessment of effects on competition or investment

Market definition

2.44 The Assessment identifies the relevant product market to include both commercial bus services and supported services (although supported services could be considered a separate market for tendering purposes) and exclude other modes of transport. It also considers that other forms of transport may compete with local

²³ Further information about Principle F can be found in the [Statutory Guidance](#), paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18.

bus services to a minor degree, but that these services form part of an adjacent and/or complimentary product market. It notes availability of other public transport options can be limited, with buses accounting for just under 80% of public transport journeys in the region.

- 2.45 The Assessment identifies the relevant geographic market for the competition assessment, in this case the local bus market in the West Midlands, and notes that competition could occur between local bus operators at both a route and network level. In support of its conclusions on the relevant markets, it refers to information from the Competition Commission's 2011 local bus services market investigation,²⁴ and notes that subsequent merger cases considered by the Office of Fair Trading²⁵ have not departed from this conclusion.

Impact on competition

- 2.46 The Assessment considers that the Scheme could potentially impact the relevant market by allowing NXWM to largely maintain its dominant market position. However, it argues that while NXWM would reduce services absent the Scheme, other operators would lack sufficient scale to operate these services, even if WMCA used a tender process. The Assessment notes that other operators are downsizing and those routes that would be cut would be unlikely to be profitable without NXWM's scale.
- 2.47 It also considers potential impacts on operators in neighbouring bus networks but does not expect it to have an impact, as the Scheme is only applicable to mileage operated within the West Midlands.
- 2.48 The Assessment considers that there would be no significant impacts on adjacent markets. While there could be some minor demand increase for taxi providers if bus services were cut, this would be limited due to the cost differential. Trains and trams may see some localised demand increase, but reduced connectivity from less bus services would make overall usage unlikely to rise significantly.
- 2.49 In our view, the Assessment covers some aspects of the effect of the Scheme on competition and investment, in line with Annex 3 of the Statutory Guidance. However, we consider that the Assessment should address if the Scheme gives NXWM any competitive benefits to enhance its position when bidding ahead of the franchising procurement. It could further assess potential impacts on competition and investment in more detail, drawing on a wider range of, and more specific, information and evidence, referring to Annex 3 of the Statutory Guidance as

²⁴ [Local bus services market investigation \(CC\) - GOV.UK](#)

²⁵ The Office of Fair Trading (OFT) was responsible for protecting consumer interests throughout the UK until 1 April 2014, when its competition responsibilities were passed onto the Competition and Markets Authority.

appropriate. It could also consider assessing the scale of the Scheme relative to the overall size of the market.

Principle G

- 2.50 Under Principle G, public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.²⁶
- 2.51 The Assessment states the main benefit of the Scheme is enabling the continuation of bus services for millions of people, in line with the policy objective of maintaining a comprehensive and efficient bus network for the West Midlands. It also includes the following benefits as a result of this:
- (a) preventing social and economic isolation for residents;
 - (b) avoiding increasing congestion and pollution; and
 - (c) building a better connected, more prosperous, fairer, greener and healthier West Midlands.
- 2.52 The Assessment acknowledges that the Scheme could impact competition in the relevant market, but states that these impacts are minimal. While the Assessment acknowledges potential impacts on competition and investment, it does not seek to systematically weigh the benefits against the negatives of the Scheme. It concludes that any negative effects are outweighed by long-term beneficial effects such as maintaining network integrity and enabling future competition through franchising.
- 2.53 In our view, the Assessment should weigh the benefits of the Scheme against its identified negative impacts, rather than the negative impacts of the ‘do-nothing’ scenario. The Assessment should, where possible, quantify the beneficial impacts of the Scheme on its policy objective, and the negative impacts arising from the Scheme.²⁷ The Assessment should then detail how benefits and negatives were weighed against each other and explain more clearly how it reached its conclusions.

²⁶ Further information about Principle G can be found in the [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21.

²⁷ [Statutory Guidance](#), paragraph 3.118.

Other Requirements of the Act

- 2.54 This step in the evaluation relates to the requirements and prohibitions set out in Chapter 2 of Part of the Act, where these are applicable.²⁸
- 2.55 WMCA has identified that the Scheme would engage section 29 of the Act because it involves delivery of a SPEI. Section 29 of the Act includes the following requirements:
- (a) the Subsidy is limited to what is necessary to deliver the SPEI services having regard to costs of delivery and reasonable profits (s29(2));
 - (b) the Subsidy is given in a transparent manner (s29(3)), meaning that the subsidy is given in accordance with a written contract (or other legally enforceable arrangement in writing), which sets out the terms of the subsidy and contains certain prescribed information (s 29(4) and (5)); and
 - (c) arrangements are in place to regularly review the Subsidy to ensure it remains limited to the minimum amount necessary and that any excess funds can be recovered (s29(6) and (7)).

The subsidy is limited to what is necessary to deliver the SPEI services having regard to costs of delivery and reasonable profits²⁹

- 2.56 The Assessment states that bus services are a critical component of the West Midlands transport system. The Assessment explains that the Scheme is limited strictly to the level necessary to maintain an economically and socially acceptable bus network, with a principal objective of ensuring a comprehensive network is maintained during the transition to franchising of procurement.
- 2.57 It explains that the amount of subsidy is limited to only what is needed to deliver the SPEI service. The Assessment then provides considerable detail about how the Scheme allows operators to make reasonable profits, subject to meeting revenue and costs targets. The Assessment explains that the Scheme will allow operators to pursue a stabilisation strategy that protects the bus network until March 2029 (covering the transition to a fully franchised network). The Assessment provides details of a profit-sharing mechanism between WMCA and operators that will apply in the event that revenue exceeds expectations and operator profits rise above an agreed threshold.

²⁸ [Statutory Guidance](#), chapter 5.

²⁹ Section 29(2) of the Act.

The subsidy is given in a transparent manner, meaning that the subsidy is given in accordance with a contract (or other legally enforceable arrangement), which sets out the terms on which the subsidy is given and contains certain other prescribed information³⁰

- 2.58 The Assessment clearly explains that the subsidy will be given in a transparent manner, and that during the Scheme, WMCA will use open-book provisions in the terms and conditions to obtain the latest information on the use of the subsidies, as well as to plan subsidies in future years of the scheme. WMCA will also maintain reports and liaise as necessary with operators to ensure that it obtains all required data as part of its monitoring function, in respect of subsidies granted during the Scheme.
- 2.59 The Assessment then makes clear that the subsidy will be delivered through a legally enforceable arrangement. The Assessment notes that TfWM has established terms and conditions that operators must meet in order to gain access to the proposed Scheme and then outlines relevant key provisions.

Arrangements are in place to regularly review the subsidy to ensure it remains limited to the minimum amount necessary and that any excess funds can be recovered³¹

- 2.60 In relation to the third requirement, the Assessment explains that WMCA will be using established processes to carry this out, which have been utilised under previous schemes. However, no details are presented. In our view the Assessment should provide further information and set out details about these processes. The Assessment also notes that WMCA will rely on the terms and conditions to obtain relevant information from operators.
- 2.61 In our view, the Assessment clearly considers the application of each of the section 29 requirements, which it largely supports with significant reasoning and evidence. However, more detail should be given about WMCA's established review processes mentioned at paragraph 2.60.

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³⁰ Section 29(3) to (5) of the Act.

³¹ Section 29(6) of the Act.