



Response to Transport Committee Inquiry

Bus services after the Spending Review

Statement of Evidence

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1. Introduction

- 1.1. **pteg** represents the six English Passenger Transport Executives (PTEs) which between them serve more than eleven million people in Tyne and Wear ('Nexus'), West Yorkshire ('Metro'), South Yorkshire, Greater Manchester, Merseyside ('Merseytravel') and the West Midlands ('Centro'). The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all. The PTEs are responsible to Integrated Transport Authorities (ITAs) made up of locally elected representatives of the areas served. Leicester City Council, Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of **pteg**, though this response does not represent their views.

2. Background

- 2.1. Although far more political and media attention is given to rail, outside of London **the bus is the main form of public transport**. Indeed for many the bus *is* public transport. In PTE areas the bus carries 71% of all public transport trips¹ and for 33% of households in metropolitan areas who do not own a car², the bus is the only available form of transport. The bus is also relied upon by the poorest groups in society: 52% of households in the lowest real income quintile do not have access to a car. This figure is even higher (64%) for Job Seekers Allowance claimants.
- 2.2. **Bus subsidy is good value for money** because it contributes to a broad range of wider social, economic and environmental goals. Buses can reduce congestion, emissions and accidents. The cost to society of car use in congested urban areas has been estimated at above £1/km³, which, for a typical 5km urban journey, is ten times higher than the current level of bus subsidy per trip (around 50p in metropolitan areas).
- 2.3. **Good bus services can also help stimulate job creation and GDP growth**. One recent study, based on DfT guidance, showed that a 60% reduction in bus fares and 20% increase in bus frequency in South and West Yorkshire would generate £5bn worth of GDP benefits alone⁴. Altogether this work showed that for every £1 spent by government, such a policy would provide £3 worth of benefits to society (£1 of which through increased GDP). Improvements to bus services that benefit local economies (for example by providing access to new developments) can also be achieved more rapidly and at relatively modest cost (when compared with major investments in road or rail links).
- 2.4. Philip Hammond (Secretary of State for Transport) has also made the links between worklessness and bus services⁵:
"Social mobility and, in particular, moving people off welfare and into work, often depends on transport infrastructure. If people on isolated and deprived estates cannot get a bus or a train to the nearest city or town, they may be stranded without work and without hope."
- 2.5. Often it is those people out of work, or on the lowest paid jobs, who need to travel longer distances, at unsociable hours, and to less accessible locations for work. They are therefore greatly dependent on these types of bus services, which in turn tend to be the most subsidised, in whole or in part, by the public purse.
- 2.6. **These arguments demonstrate that there is a strong long term case for maintaining and increasing current levels of bus subsidy and investment**. It is unclear whether government has made an assessment of the full impact of the spending review on the overall reduction in bus subsidies (not just BSOG) on accessibility to jobs and education, on highway congestion and, ultimately on wider government expenditure. Past experience (such as bus deregulation) shows that apparent short-term savings in bus subsidy can lead to a significant increase in government spending in the future.

3. Impact of the Spending Review on bus network funding

- 3.1. **The bus services that passengers will have in a few years time will depend on the cumulative impacts of changes in bus subsidy regimes (i.e. concessionary travel, BSOG, and local authority tendered service budgets), the viability of the commercial network (which in turn is influenced by the state of the national and local economies) and local authority capital budgets for improvements to bus priority and other measures which benefit bus operations.**
- 3.2. The key outcomes of the spending review for bus:
- 20% cut in BSOG from 2012/13, equating to a 2.2% average cut in turnover across PTEs.
 - Rolling of £223m Special Grant for concessionary travel and £60m Rural Bus grant into CLG formula grant in 2011-12. This will be followed in 2012-13 by a 10% cut in the amount of former Special Grant flowing from DfT to CLG.
 - 28% cuts in local government funding over the period of the CSR (which in turns influences the ability of local transport authorities to support tendered services)
 - Very significant reduction in Integrated Transport Block (now half what it was prior to in-year 2010/11 spending reductions) which funds small and medium-size schemes (such as bus priority, interchanges and real time information)
 - New reimbursement guidance for concessionary travel and resulting estimated savings likely to lead to lower reimbursement for operators
 - Impact of public spending on employment, patronage, and hence the viability of commercial bus networks
- 3.3. The spending review follows a period where bus subsidy has more than doubled over the past 10 years. However these increases have resulted almost entirely from increases in concessionary travel reimbursement in shire areas (where subsidy almost doubled) and the major increase in subsidy for the London bus network (which more than quadrupled over this period). However, bus subsidy in metropolitan area bus networks has risen by less than 15% in real terms. This factor has contributed to the differences in patronage and fare levels between London and the metropolitan areas: in London, fares have grown by less than 5% in real terms over the past 10 years, whereas the rise has been closer to 20% in metropolitan areas. As a result, in London patronage has increased by more than 50% but in the metropolitan areas, patronage has declined by close to 10%.
- 3.4. Looking forwards, our estimates suggest that the planned 20% cut in BSOG, along with the transfer of NCTS Special Grant into CLG and the expected cuts in local government funding, could lead to a reduction of more than 40% in the subsidy available to non-concessionary trips across PTE areas, which in turn could give rise to significant service cuts and fare rises. By way of contrast, the reductions in TfL funding from Government are not as frontloaded as they are in the metropolitan areas⁷. So not only do these figures show that metropolitan areas have not enjoyed the same levels of subsidy as London, they also show that our areas will also be harder hit by the Spending Review outcomes.

BSOG

- 3.5. BSOG in general represents very good value for money. The Commission for Integrated Transport found that for every £1 invested in BSOG there were between £3 and £5 of wider benefits. As Transport Minister, Norman Baker, told the House of Commons on 29 June: *“The benefits of that grant are clear: it ensures that the bus network remains as broad as possible, while keeping fares lower and bringing more people on to public transport, with the obvious benefits of reducing congestion, lowering carbon emissions and improving air quality in our towns and cities.”*
- 3.6. Although we strongly support the retention of BSOG we believe that **in the metropolitan areas better value for money could be achieved by devolving these funding streams to PTEs.** This is because PTEs can ensure that the subsidy flows are targeted in a way that reflects local

circumstances, opportunities and aspirations, in consultation with operators. For example it might be decided that BSOG subsidies should be targeted at bus priority measures on key corridors. Through this measure journey times would be reduced, passenger revenues would increase, operating costs would fall, and the need for subsidy would also reduce. In other areas it may be decided that comprehensive smart ticketing, or greener buses, are the priority. A win-win situation for everyone.

- 3.7. This localist approach also avoids the inevitable unintended consequences and windfall payments that result from a flat national 'one-size fits all' subsidy regime. For example, at present, BSOG payments are currently being used to incentivise the fitting of smartcard readers and AVL equipment even when this equipment has already been fitted and paid for by PTEs.
- 3.8. **In our view BSOG should only be devolved where it can be ring-fenced for buses** (which PTEs are in a position to do as single purpose authorities). There would also need to be extensive consultation with operators to ensure that changes to BSOG were made in as consensual way as possible to ensure best possible outcomes and maintain network stability.
- 3.9. We understand that DfT will consider reforms to BSOG (including devolutionary options) in the context of the on-going Competition Commission inquiry. But prior to this the DfT have already announced a 20% cut in BSOG as part of the CSR. This would translate into an estimated 2.2% cut in industry turnover in PTE areas. Although operators have given government reassurances that this won't lead to an increase in fares, there are other ways in which operators are able to recoup this loss of revenue, for example through increases in the cost of subsidised services.
- 3.10. The reduction in BSOG cannot be treated in isolation from the cumulative impacts of wider changes to funding regimes (as described above). **A reduction in one revenue stream to the industry will inevitably lead to an increase in costs elsewhere, either to passengers or the public purse.**

Concessionary fares

- 3.11. In metropolitan areas, PTEs are responsible for administering the National Concessionary Travel Scheme (NCTS) on behalf of the DfT. **There is no doubt that this scheme provides older and disabled people with a valuable service, enabling them to retain independence and access key amenities and social networks.** A reflection of its success is the fact that demand has been growing at a steady pace. However, the cost of reimbursing operators has also risen with demand and the rise in commercial fares (see paragraph 3.3). As a result, NCTS is taking up a growing proportion of PTE budgets: it is currently estimated that between one third and one half of PTE revenue budgets are now accounted for by NCTS.
- 3.12. While current funding arrangements have enabled PTEs to cope with the increasing cost of NCTS, **a number of changes to funding arrangements coupled with wider cuts to local government budgets could have a dramatic impact on local bus networks.** The direct grant, received from DfT by PTEs, has offered the stability needed to be able to secure long term agreements on reimbursement with operators. The agreements mean that PTEs have been able to accurately anticipate how much will need to be spent on concessionary fares and set their wider budgets accordingly. Operators are happier with these arrangements too as is demonstrated by the absence of appeals in PTE areas.
- 3.13. However, this has all recently changed with the subsuming of direct grant into CLG's opaque local government settlement. As a result, PTEs will need to find a way to claim the entire cost of NCTS from their constituent districts whilst, at the same time, it won't be possible for districts to identify how much they have been allocated to fund NCTS. The combination of rising reimbursement costs, withdrawal of direct grant, cuts in wider local government funding along with reduced transparency make for a potentially explosive combination in metropolitan areas.
- 3.14. The danger is that NCTS will begin to eat into the funding available for concessions to other groups and for wider bus network support, as between one third and one half of PTE revenue budgets are now accounted for by NCTS. **This could have dramatic consequences whereby**

older people in the metropolitan areas end up with a free pass for a quickly vanishing network of services, whilst young people and children face their concessions being withdrawn. More widely, public transport networks would deteriorate with less extensive, more expensive, less integrated and less accessible networks.

- 3.15. PTEs understand the context within which funding cuts are taking place. Although we support the move towards greater local flexibility by reducing ring fences from grant funding for local authorities, the case of NCTS is clearly an exception as there is no flexibility in providing NCTS - it is a national statutory entitlement. **Government has firmly committed to this policy and should, therefore, both provide an adequate level of funding and ensure that funding is effectively targeted at those charged with delivering the scheme.**
- 3.16. We believe that this can be done by reinstating the direct grant element of the funding for NCTS to those charged with administering it. This represents the best option for achieving clear and transparent funding arrangements.

Subsidised services

- 3.17. Support for non-commercial services represents 22% of bus subsidy in PTE areas and such supported services make up about 15% of our bus networks. These services fill key gaps in the commercial network – for example in the off-peak, in rural areas, to council estates and for shift workers. They also include dedicated school services, community transport and other flexible services providing greater mobility to important segments of the population.
- 3.18. **Many subsidised services are vital for those in search of employment and therefore have much to contribute to the economic recovery and wider government reforms of the welfare system.** DWP guidance puts the yearly fiscal, health and crime reduction benefits of getting somebody into employment at between £7,300 and £14,000. Taking the average subsidy per non-concessionary trip to be 37p in PTE areas this would equate to an average return of between £44 and £84 for every pound spent, where it enabled somebody to become gainfully employed.
- 3.19. **The ability of PTEs to continue to support non-commercial bus services will depend on their revenue budgets, which in turn is largely dictated by the amount of funding received via the levy from their constituent district councils.** As the majority of PTE revenue spend is non-discretionary (with concessionary travel spending making up a significant proportion of that non-discretionary spend), any reductions in revenue budgets will therefore need to come out of discretionary spend – of which supported services (alongside non-statutory concessions) would be particularly vulnerable given their relative size.

Reduction in capital funding for schemes that benefit bus services

- 3.20. Both the CPT and Passenger Focus argue that greater punctuality and reliability of bus services are key to both better services for passengers and more cost effective operation. Bus priority schemes are one very cost effective way of achieving this as is amply demonstrated in a recent review of evidence by the International Union of Public Transport⁸. One of the key sources of funding for smaller public transport schemes (including bus priority) is the Integrated Transport Block, which will be 50% lower next year relative to what it was before in-year cuts to 2010/11 budgets. This measure runs the risk of backfiring as **the reduction in the amount spent by local authorities on highly cost effective local public transport schemes will inevitably lead to higher subsidy requirements in the long term** though higher bus operating costs and lower patronage.

4. Getting better value for bus subsidy

- 4.1. Clearly the current arrangements for subsidising the bus industry are highly complex and involve sizeable funding flows. Injecting large sums of public subsidy into what is nominally a free market for bus provision brings with it great complexity, conflict and challenge; is resource

intensive to manage; and can make effective scrutiny of outcomes challenging. There is also a significant degree of national prescription and administration of what is essentially a local service.

- 4.2. As section 3 shows, in general devolution of bus funding flows will enable more cost effective targeting of bus subsidy (where it can be ring-fenced for buses and where a local transport authority is of the scale to manage it).
- 4.3. One way of achieving both devolution and simplification is through moving to a franchising system (known as 'Quality Contracts' in the UK). This would allow existing funding to be channelled to the franchising authority (the local transport authority) where it could be pooled alongside other local funding streams for buses, in order to buy the best possible package of services and outcomes (concessions, integrated ticketing, service quality regime) from the successful franchisee. This is one reason why PTEs strongly support the retention of the powers to introduce Quality Contracts, as set out in the Local Transport Act 2008.
- 4.4. Outside of a Quality Contract regime the devolution of BSOG, in our view, is perfectly practicable. There are however significant challenges in the pooling of wider bus subsidy flows to achieve better outcomes. This is chiefly because the national concessionary travel scheme is a national, statutory requirement which ultimately operators will expect to be reimbursed for by local authorities. It does not therefore easily lend itself to being merged with other funding flows for the achievement of non-statutory outcomes (such as wider packages of service provision).
- 4.5. Less complex systems for determining funding and reimbursement for concessionary fares also have obvious attractions in terms of ease of oversight and administration. However, a simpler system (where levels of reimbursement are less graduated and less responsive to local circumstances) will inevitably create more winners and losers, with the overall level of Government funding tilting the axis one way or the other. In other words greater simplicity can result in outcomes which represent poorer value for money for the taxpayer with potentially greater impacts on wider budgets for transport authorities.

5. Planning more effective networks

- 5.1. We believe that it is right that bus users have an independent watchdog to represent their interests and we supported Passenger Focus taking on that role. We do not believe however that it is practical or desirable for a national body with limited staff and resource to become involved in planning local bus networks. The bus network is an accumulation (on a massive scale) of numerous local bus services that have developed over time and which in a deregulated environment change in an incremental way. The bus network is not the rail network – where given the nature of the franchising process it is practical for Passenger Focus to get involved in a relatively limited number of franchising exercises that are undertaken every year.
- 5.2. Given bus networks are essentially local, it is the role of accountable local transport authorities to take the lead role on bus networks in their areas. It is also worth noting that PTEs operate a variety of passenger forums and other outreach methods of eliciting passengers' views. However, having said this we believe that Passenger Focus does have an important role to play in advising local transport authorities on good practice in consultation and public involvement, on holding local transport authorities to account where they manifestly fail passengers, and where under a Quality Contract or under other large scale proposals for major changes to a bus network, the scale of the change is such that Passenger Focus can usefully play a role.
- 5.3. We also believe that there is scope to review the inter-relationships between the various bodies with responsibilities for service monitoring and enforcement, complaints and customer satisfaction surveys. In metropolitan areas this is the Traffic Commissioner, Passenger Focus and the PTEs. We are already working with PF on the potential for common customer satisfaction surveys, and we believe there is further scope for rationalisation and more effective and better value for money ways of ensuring that passengers' interests are protected.

¹ Source: DfT, NTS 2009

² Source: DfT, NTS 2009

³ Sansom et al, 2001 (<http://www.its.leeds.ac.uk/projects/STCC/downloads/SurfaceTransportCostsReport.pdf>), 2010 prices

⁴ Feldman, O., Nicoll, J., Simmonds, D., Sinclair, C. and Skinner, A. (2008), "Use of Integrated Transportation Land Use Models in the Wider Economic Benefits Calculations of Transport Schemes", *Journal of the Transportation Research Board*, 2076

⁵ <http://www.surreyherald.co.uk/surrey-news/surrey-columnists/2010/08/24/philip-hammond-mp-transport-is-at-theheart-of-the-country-growth-86289-27135014/>

⁷ <http://www.pteg.net/PolicyCentre/FundingGap/CSRnumbercrunch.htm>

⁸ [http://www.tfl.gov.uk/assets/downloads/businessandpartners/interaction-of-buses-and-signals-at-road-crossings\(1\).pdf](http://www.tfl.gov.uk/assets/downloads/businessandpartners/interaction-of-buses-and-signals-at-road-crossings(1).pdf)