Funding and delivering bus services during the COVID-19 pandemic and beyond

November 2020

Executive summary

Prior to the COVID-19 pandemic, bus networks were reliant on public funding routed through complex, uncoordinated funding streams which neither related to clear overarching objectives or were sufficient in total to prevent general patronage decline, shrinking networks and rising fares.

The pandemic has led to bus services becoming entirely dependent on public funding with the existing patchwork of funding maintained (even where it no longer pays for services that are being provided) with an additional layer of COVID-19 specific funding.

Local Transport Authorities have sought to make the system that Government has implemented work. However, the current arrangements are unsustainable as they rely on local government continuing to fund services that are not being provided and journeys that are not being made. They also leave transport authorities in metro areas with populations equivalent to that of small European countries (and in the midst of a national emergency) unable to plan public transport in a coordinated and integrated way. The auditing of the totality of public funding streams currently routed to bus providers is also partial.

Meanwhile, the long-term prospects for bus services are not encouraging if the Government were to take an incremental and short-term approach to the future of bus service funding and provision. If, by and large, the bus was fighting a losing battle on patronage and service levels prior to the pandemic, then without a greater quantum of revenue support, and a more effective way of routing that support, there is no logical reason why this will not continue after the pandemic. In addition, although the provisions in the Bus Services Act 2017 for franchising and enhanced partnerships are welcome (and as we warned the Government prior to the legislation being passed), there were opportunities for streamlining processes which were missed at the time. The wider funding uncertainties that currently surround the sector are also likely to prove to be an additional deterrent.

We therefore propose a two stage approach in ensuring the most efficient use of public funding to provide the best possible bus service during the pandemic, whilst setting in place the foundations for reversing the decline in bus use that was taking place before this crisis.

As soon as possible, the Department for Transport (DfT) should route existing fuel duty subsidy (BSOG) and additional COVID-19 funding (Coronavirus Bus Services Support Grant or CBSSG) to those transport authorities that want to take responsibility for it, and where those authorities are confident that the sums involved are sufficient for them to deliver their aspirations for local bus networks. In addition, the Government should change the regulatory framework for bus services in order that those transport authorities wishing to do so could move to new Temporary Local Bus Service Contracts so that existing bus networks are provided by existing operators under contract to the transport authority (with profits capped to the level of a management fee, as is the case on national rail services). This would ensure that public funding was being deployed to pay for real outcomes in a fully audited way. It would also mean that transport authorities could ensure that bus services were meeting the changing needs of local communities as the pandemic unfolds, and that bus services are both coordinated with wider local public transport services (such as tram and heavy rail services), that passengers are protected and that fares across the services of all operators are simple, integrated and appropriate.

At the same time, the Government should prepare the way for a transition of growth in bus use.

The Government should do this through modelling scenarios (and the likely subsidy levels needed) to support higher passenger numbers. This in turn should inform the overall funding envelope for bus services from January 2021 onwards.

In addition, and learning the lessons of the use of the legislation so far, it should take steps to streamline the provisions of the Bus Services Act 2017 in order to make it easier for transport authorities to either trigger the powers it contains (or accelerate progress where those powers have already been triggered) to introduce Enhanced Partnerships or Franchising as each authority sees fit.

With greater funding certainty and a streamlined 2017 Act, transport authorities would then be able to move from Temporary Local Bus Contracts to either Enhanced Partnerships or Franchising as soon as is practicable.

This approach would also maximise the benefits that will flow from:

- The £3 billion of largely capital investment in bus services that the Government has pledged (including 4,000 zero emission buses)
- The ongoing investment by transport authorities in bus priority measures alongside capital investment such as bus stations, interchanges, and park and ride

In summary, this package of reforms would:

- Simplify and rationalise public support for bus services
- Allow for integrated public transport provision in metro areas, overseen by accountable transport authorities
- Link bus support to clear outcomes based on modelling and analysis rather than assertion and wishful thinking
- Ensure value for money through clearer audit trails and through funding being tied to specific outcomes and objectives
- Give all parties (local authorities and operators) certainty and confidence to build a better future for bus services
- Allow the benefits of capital investment by local and national government in buses and supporting infrastructure to be fully realised

Background

The impact of the pandemic

We are currently experiencing a second wave of the pandemic and national restrictions on movement which will significantly reduce bus patronage. How long the pandemic will last and how restrictions will evolve, and ultimately be phased out, is unclear.

In September, UTG commissioned the consultants Steer to look at likely scenarios.

It found that:

'Informed by the economic outlook and thinking about how local public transport patronage may respond to different drivers of demand, we have put forward two demand scenarios, both of which assume on-going Government support. In a plausible Best Case Scenario, we postulate that:

- *There will be a relatively rapid resolution of the COVID crisis with the restrictions largely relaxed by mid-2021 (inherent to this assumption is that the UK will be an early adopter of a vaccine allowing social distancing requirements to be relaxed).*
- *Local public transport demand will return to no more than 85% of its pre-COVID levels.*
- *This level of demand would be reached 12 months after the end of the national lockdown, so mid-2021.*
- *There would be a steady and gradual increase in demand over this period.*
- *After that and with no further policy intervention, there would be a return to trend, which is on-going decline for bus perhaps tempered in the short to medium term by an increase in employment as the economy recovers, and modest aggregate growth for tram/light rail.*

In a plausible Worst Case Scenario, we postulate that:

- *There would be on-going COVID related restrictions throughout 2021.*
- *Local public transport demand will return to 65% of its pre-COVID levels.*
- *This level of demand would be reached 18 months after the end of the national lockdown, that is late 2021.*
- *After that and with no further policy intervention, there would be a return to trend, which is on-going decline for bus and modest aggregate growth for tram/light rail.*
- *Aggregate demand will fluctuate with large swings in local areas as different scales of lockdown restrictions are imposed and then relaxed. We have also considered what would happen if Government support is curtailed.*

In either scenario:

- *Bus miles would reduce, that is travellers would face a reduction in service, which would further reduce patronage.*
- *There will be pressure to increase fares. Fare increases would also have a negative impact on patronage.*
- *While there will be increasing pressure on Local Transport Authorities to step in and procure socially necessary services, available budgets place a tangible limit on their ability to act.*
- *Light rail/tram revenues would reduce. There is, however, limited opportunity to scale back such services and reduce costs. Either a step change reduction in service is required, or there will be material shortfalls in revenue meaning that the pre-COVID*

positive operating surpluses generated by most systems will be reversed. For fixed track systems such as light rail or tram, it is very challenging to escape on-going costs.

In either scenario, should Government support cease different communities and different locations will experience differential impacts:

- *The sectors of the economy most immediately affected by the downturn include food and beverage, hospitality and accommodation and the retail sectors.*
- *These sectors make up large proportions of town and city centre employment.*
- *They also have a workforce with a high preponderance of younger people and women of all ages, with low wages and many part-time positions, as well as more staff on zero hours/'gig economy' contracts.*
- *It is those most deprived areas that are likely to bear the brunt of loss of income and/or job losses.*
- *Workers in the sectors most immediately affected have a high propensity to use local public transport for their journeys to work and given low car availability, for other journeys too. This is also true for the customers of these sectors – it is town and city centres that have the highest public transport mode share.*

In summary, local public transport faces a situation where its core demand has been disproportionately affected by the pandemic-induced recession, while at the same time provision of local public transport is particularly important if these people are to be able to return to employment. Maintaining local public transport supply is therefore integral to the post-pandemic recovery.

Furthermore, before the pandemic at a national and local level supporting growth in local public transport was seen as integral to:

• *Supporting local economic growth and the further growth of employment and economic activity in town and city centres, all as part of the levelling up agenda;*

• *Securing compliance with legal obligations to improve air quality by providing less polluting alternatives to car travel;*

• *The path to carbon 'net zero'.*

The Steer report concluded that: *'Our finding is that there is a need for on-going public support. As a minimum, consideration must be given to how such support will be provided between now and the end of financial year 2021/22, that is to the end of March 2022. Local Transport Authorities' ability to act is constrained. The question is not to whether Treasury support is needed, but what shape and form that support should be. Funding to the end of March 2022 would align the time horizon for support for local public transport with the Emergency Recovery Management Agreements (ERMAs) for the national railway, which were announced on 21st September.'*

Our proposition is therefore predicated on the assumption that total bus revenue funding support will need to remain at a higher level than it was prior to the pandemic **if the overall rate of decline in bus service provision and bus use isn't to accelerate at an even faster rate than was the case prior to the pandemic.**

If the aspirations that we and Government have for increasing bus use are to be realised, then, alongside other measures, such as capital expenditure in bus fleets and supporting infrastructure, there will clearly need to be a step change increase in revenue support for bus services compared with pre-pandemic levels of funding.

How buses were funded before the pandemic

The pre-pandemic public funding streams for buses are still in essence in place.

However, pre-pandemic all these funding streams had been negatively affected by funding cutbacks by national Government.

We summarise the six sources of public funding (and the effects of spending cutbacks) for bus in our March 2019 report on the cross-sector benefits of backing the bus.

1. Local Transport Authority (LTA) funding of non-commercial, socially necessary bus services ('tendered' or 'supported' services).

LTAs are permitted to step in to support bus services where no commercial service has been provided but where a need exists (for example, unprofitable off-peak services or services to rural areas and isolated housing estates). These 'socially necessary' services (also known as 'tendered' or 'supported' services) make up around a fifth of the network.

Support for these services cost around £370 million in 2017/18 outside of London but can generate benefits in excess of £3 for every £1 of public money spent. Most of these benefits accrue to bus users who would otherwise not been able to access opportunities or who would have seen a steep increase in their transport expenditure.

Impact of public spending cuts

Because of cuts in wider local government funding from the Ministry of Housing, Communities & Local Government (MHCLG), many LTAs have had to reduce their budgets for supported bus services.

The impact is already being felt on the ground. According to research by Campaign for Better Transport, during 2016/17 some 64% of local authorities made such cuts to their supported bus service budgets. Since 2010/11, across England supported bus service budgets have reduced by £172 million, representing a 46% drop and resulting in around 3,000 bus services being reduced, altered or withdrawn. DfT statistics show that between 2015/16 and 2017/18, the number of local authority supported bus miles outside of London fell by 22%.

2. LTA funding of concessionary fare schemes

This includes the Government's English National Concessionary Travel Scheme (ENCTS) for older and disabled people, as well as discretionary spending on enhancements to that scheme and on concessions for other groups like children, young people and jobseekers.

Although it is Local Transport Authorities who have the statutory responsibility for reimbursing bus operators for the cost of ENCTS, this is a national policy, which is meant to be funded through MHCLG's general purpose grant to Local Authorities.

The annual cost of the ENCTS (outside London) is estimated at around £670 million. Across the Metropolitan areas alone, the ENCTS delivers £1.48 of benefits for every £1 of public money spent on the scheme. These benefits accrue to other transport users and society at large, as well as to those receiving the concession.

Impact of public spending cuts

Unfortunately, MHCLG funding has not kept pace with the rising costs of the NCTS. Whilst funding previously covered expenditure of Concessionary Travel, it has now been reduced to the extent that it covers less than half of total expenditure, with the remaining costs having to be covered by Local Authorities. There is an additional challenge in the city regions as the MHCLG funding (including the nominal allocation for the cost of NCTS) goes to the District Councils in a city region, rather than the city region-wide transport authority (which have the responsibility for reimbursing operators for the cost of NCTS).

This shortfall is being made up by cuts to other transport services, such as subsidised bus routes, accessible transport or concessions available to other groups. In some shire areas, the shortfall in concessionary funding is credited with wiping out the whole of the subsidised network, leaving many elderly and disabled people with a free bus pass but no services to use it on.

3. Government funding of the Bus Service Operators Grant (BSOG)

BSOG is a rebate on fuel duty for bus operators for commercial services and for Local Transport Authorities for supported services.

BSOG funding for England outside of London amounted to £249 million in 2016/17. Support for BSOG in Metropolitan areas generates £3.35 of benefits for every £1 of public money spent. Over a quarter of these benefits accrue to other road users through decongestion.

Impact of public spending cuts

The Government reduced the BSOG funding pot by 20% in 2012/13 compared to the previous year and then a further 15% in 2013/14. Since then, BSOG funding has remained broadly stable but funding is around £15 million lower in 2017/18 than it was in 2014/15. This is likely to have put pressure on the commercial viability of services, resulting in bus service reductions and/or withdrawals and upwards pressure on fares.

BSOG is also paid to LTAs for its contracted services and if BSOG is reduced it means less funding is available to support socially necessary services. If this is on top of the reduced viability of commercial services, this contributes to a vicious circle.

4. Ad hoc national funding programmes (e.g. the Green Bus Fund) and LTA capital investment (e.g. in interchanges, stops, shelters and bus priority schemes).

The value of national funding programmes varies but LTA capital investment alone is estimated to amount to between £150 million and £200 million per year, on average. The main source of LTA capital funding for bus infrastructure has been the Integrated Transport Block.

Capital investment in bus priority measures brings direct benefits to bus service reliability, reducing operating costs and improving attractiveness for passengers. This therefore improves the financial viability of bus services which, in turn, eases the pressure on public sector revenue funding to support services.

Impact of public spending cuts

Capital spending comes from a variety of national and local sources, some of which support more than bus schemes. It is therefore difficult to make a precise estimate of the extent to which capital spending on bus services has declined.

5. Local Education Authority (LEA) funding for home to school transport (including bus).

Expenditure on home to school transport in England is around £1.1 billion per year.

Impact of public spending cuts

Research indicates that LEAs are cutting back on discretionary areas of school transport spending and post-16 transport, raising charges and tightening entitlement criteria. What is provided is often confined to the statutory minimum and transport services for pupils with severe or complex special needs.

The cuts mean that fewer children and young people will receive free home to school transport and more will be travelling on mainstream supported or commercial buses, putting pressure on concessionary travel budgets. High transport costs could also restrict the ability of children and young people to attend the educational establishment that best meets their needs.

Despite fewer pupils being eligible for school transport and an increase in charges, local authority spending on school transport continues to rise. This is attributed to various factors including increasing costs of providing transport, particularly the growing cost of providing transport for pupils with Special Educational Needs, and shortage of school places resulting in pupils having to travel outside of their local area.

Cuts to local authority funding, combined with the rising costs of providing even the bare minimum of home to school transport means that many LEAs are planning further action to manage their budgets – often involving introducing/increasing charges and cutting post-16 transport provision.

6. LTA financial support for bus service information, staffing and other services.

LTA support for bus services in these areas could take the form of providing travel information to the public via call centres, websites, mobile apps and printed information. It could also include the staffing of bus stations, monitoring of service use and the implementation of security measures. The extent to which these services are provided varies between LTAs.

Impact of public spending cuts

It is hard to quantify the precise impact on information provision, staff and other support for bus services. However, it is fair to say that some LTAs have already reduced funding for information and staffing, and that these trends are highly likely to continue as further spending cuts are imposed. For the purpose of this paper, we estimate the cut in funding to be of the order of tens of millions of pounds.

As the section above illustrates, the six main sources of public support for bus services come from a range of different government departments (DfT, Department for Education and MHCLG), working largely in isolation from each other and with restricted understanding of the cumulative effects their decisions on funding have on bus services. Indeed, given that LTA funding for bus comes from wider local government budgets, MHCLG (rather than DfT) has been the department with the most impact on funding for buses but for whom buses are less than a central consideration in their wider decision making.

The cumulative impact of spending reductions prior to the pandemic was a significant reduction in public support for bus services which in turn was a contributory factor in the continuing overall decline in bus provision and ridership.

How buses are being funded during the pandemic

Broadly speaking, the basic elements of pre-pandemic funding arrangements have been retained in an adapted form.

- Government has asked Local Transport Authorities to continue to pay national concessionary travel reimbursement at pre-pandemic rates irrespective of the number of concessionary passengers actually carried
- Government is continuing to pay BSOG at pre-pandemic rates and asked local government to do likewise where BSOG has been fully or partially devolved, irrespective of the services actually provided
- Government has asked Local Transport Authorities to continue to fund supported services at pre-pandemic levels irrespective of the services actually being provided.
- In addition, the Government has created a new funding stream called the Coronavirus Bus Services Support Grant (CBSSG), which provides an additional payment for those services that bus operators are continuing to provide (at a rate of £1 per bus kilometre)

Operators can also apply to wider Government support schemes designed to support businesses, such as furloughing.

Value for money is intended to be secured through a reconciliation process which means that some (but not all) operators are audited on any overpayment of CBSSG, i.e. payments made were more than was actually required to cover additional costs of providing bus services due to COVID-19. There will be no equivalent claw-back mechanism for Local Transport Authorities on the payments they have made.

As a quid pro quo, Government has set a number of conditions including that operators must take all reasonable steps to respond and comply promptly with reasonable requests from LTAs to amend the services operated and the routes used by those services, hours of operation, vehicles used or levels of provision; and to supply data on service usage and operations during the period of CBSSG Restart funding receipt – including to ensure a joined-up, cross-modal service offer, and to support wider COVID-19 response efforts.

The failings in the way buses were funded before and during the pandemic

The key failings in the way buses were being funded before the pandemic were:

- The totality of funding was insufficient to maintain bus networks or ridership and had been subject to significant reductions
- highly complex and poorly coordinated, involving separate Government departments with no read-across between decisions made on different funding streams
- poorly related to a coherent set of objectives

The way that funding is being provided during the pandemic is still based on the way buses were funded before the pandemic, so the weaknesses of that approach remain.

However, there are new weaknesses too.

Current funding provides **inadequate protection to passengers** because leverage over operators (due to the format for funding flows to the industry) is split between national and local government and the conditions that can be set for operators by transport authorities are necessarily broad brush.

Whilst Local Transport Authorities and bus operators have cooperated to keep networks running during the pandemic, it has not been without considerable challenges; some of which relate to the fundamental flaws of a deregulated environment for the provision of bus services.

These issues include:

- Operators proposing or implementing frequency reductions without adequate consultation or despite the opposition of transport authorities
- Continuing to run services in competition with light rail networks
- Withdrawing funding support for integrated ticketing products
- A plethora of different operator-specific information sources
- Lack of inter-available ticketing between operators or across wider public transport networks
- Gaming of the concessionary appeals system (including actual or threats of speculative appeals) in order to create leverage or secure a further means of achieving internal revenue targets
- Inconsistent overall product and branding across bus networks as a whole
- Excessive frequency of schedule changes with short notice making it impossible for transport authorities to provide accurate and consistent travel information for passengers

All of these issues outlined above leave transport authorities unable to fulfil their role for public transport in their areas. Furthermore, they absorb significant corporate bandwidth in reactively responding to what remains essentially a commercial, operator led pattern of bus services.

This leaves transport authorities for urban areas (with populations equivalent to those of small countries) **unable to coordinate and plan public transport networks** as a whole given that buses, light rail and heavy rail networks are all being funded in different ways – and with varying degrees of transport authority influence – at the very time when capacity across those networks as a whole risks being significantly overstretched due to social distancing and staff availability.

The **current arrangements are not legally robust** in that national Government is asking local government to reimburse bus companies for concessionary journeys that are not being made and for supported services that are not running. We do not believe that the current legal underpinning that the Government claims allows for these arrangements to continue, provides sufficient legal comfort for local authorities to do so.

The current arrangements are **not sustainable in terms of the likelihood that all local authorities will continue to make payments for services that are not being provided.** Especially given they are also under-funded for wider COVID-19 impacts on their finances; when the legal basis for doing so is not robust, and when the payments are being made to commercial companies over whom their influence is limited.

Auditing of whether operators have been over or under paid is not universal and does not apply to the totality of operator income streams.

The lack of future funding certainty inherent in the current arrangements exacerbates the risk of operators withdrawing to a much smaller core commercial network, which would mean either marginal services not being provided or local authorities having to find the funding necessary to maintain these services.

This short term and fragmented approach to bus funding also uses up significant bandwidth at transport authorities in anticipating and responding to its incremental evolution and its many complexities.

Why more of the same or similar won’t work

As we understand it, the Government is currently reviewing the successor for CBSSG in particular and wider bus funding streams, as part of its work on a new national bus strategy.

Meanwhile, the Confederation of Passenger Transport, which represents the interests of incumbent bus operators, has made the case for ‘recovery partnerships’ whereby the Government would route additional funding to operators in return for agreeing conditions with local authorities (in effect an extension of the current approach of CBSSG funding).

We do not believe such an approach would be effective for the reasons set out below.

In summary, it would risk:

- Leaving transport authorities without the authority to plan and determine bus networks or bus networks’ role within wider urban public transport provision during the pandemic
- Treating CBSSG in isolation from the other funding flows for bus services
- Profit driven commercial entities having the primary role in determining which communities benefit from a key public service and which do not
- Further embedding the fragmented approach to funding urban public transport as a whole in the city regions (with heavy rail, light rail and bus all siloed), which militates against efficient use of public funding, and integrated ticketing and networks. This has the potential to give rise to incumbent monopoly bus operators determining outcomes and thereby reinforcing their monopoly position, which in turn militates against the opening up of bus markets to competition through franchising (where an authority believes that is the best option for them)
- Adding additional layers of bureaucracy and delay, and a role for officials in Whitehall in determining what happens to what is a hyper local public service
- Being unwieldy in the rapidly changing local circumstances of a pandemic / post pandemic period
- Undermining the role of transport authorities as the strategic planning bodies for transport in their areas

A better way to fund and provide bus services during the pandemic and beyond

If the aspirations that both we have, and Government has, for supporting communities during the pandemic and increasing bus use after the pandemic, are to be realised then we need a system that:

- Provides sufficient funding overall to achieve these objectives
- Is efficient and secures best value for money for the taxpayer
- Ensures that decisions are taken at the right level and in the broader public interest – which in the city regions is the transport authority
- Is compatible with transport authorities moving to the formats for bus provision, which they judge will best meet local aspirations and circumstances

Our proposal in summary is that:

A) The DfT undertakes a rolling assessment of the overall funding levels necessary to maintain services at pre-pandemic levels for the duration of the pandemic and to increase patronage after the pandemic. This assessment is then used to inform overall revenue support levels. At present there is no linkage between bus funding streams and higher level long term objectives such as patronage growth. We have recently finalised a bus model, which can provide a sophisticated assessment of the effects of different policies and exogenous effects on bus patronage in the city regions. We would be happy for the DfT to have access to this.

B) CBSSG (or successor) and BSOG is routed to those transport authorities that want to take responsibility for these funding streams (and where they are confident that the totality of revenue funding available to them enables them to meet their aspirations for local bus networks) as soon as possible (see below)

C) Changes are made to the legislative framework as soon as possible so that transport authorities can move to a contractual basis for the provision of networks of bus services with incumbent operators during the pandemic on a temporary basis (see below). We describe these as 'Temporary Local Bus Contracts' (TLBCs).

D) These temporary and emergency arrangements can then be superseded by transport authorities moving to streamlined provisions in the Bus Services Act 2017 for franchising or enhanced partnerships as they see fit

And in more detail...

Our proposal is that we should route all the public subsidy for bus via city region transport authorities who would then use that funding to buy the networks of services from private operators that best meet the needs of the places they serve. This would also put all payments to operators on a sound contractual footing.

In many ways this would replicate – on a local basis – the Emergency Measures Agreements (EMAs), now National Rail Contracts (NRCs), that the Government is using to maintain rail services. This system for rail services was introduced on the same day as the lockdown began.

Local Transport Authorities would work with bus operators to define a suitable network that meets demand in a highly constrained social distancing environment. Networks will be reviewed regularly based on information about passenger numbers and peak loadings and adjusted as necessary.

Local Transport Authorities will use the powers available to them to enter into contractual arrangements with operators to deliver agreed bus services. An open book approach to operating costs and revenues will be required to ensure good value for public money is achieved.

Where operators currently compete in the busiest transport corridors, the Local Transport Authority may need to decide which operator(s) should deliver a suitable service (potentially shared by operators with interchangeable ticketing) and which services are extraneous. In these circumstances an initial emergency tendering exercise will establish the operation from day one, to be replaced quickly by a formal tendered competition amongst operators, based on the lowest minimum cost price of operation.

Local Transport Authorities should consider whether the diversion of some bus services to integrate with local rail, Metro and light rail services might give better value for public money and provide better outcomes for passengers. This will be an issue for particular consideration where bus services directly compete with fixed rail systems.

Local transport authorities will work with operators to agree the fares to be charged for all bus journeys. In many cases the commercial fares previously charged on a route will be adopted. In some cases it may provide better and more integrated outcomes for passengers if amended bus fares are considered, including the option of much simpler fares or the introduction of good value day fares that apply to all public transport journeys irrespective of operator and mode.

This funding model could be used to achieve other policy outcomes – for instance simpler integrated fares or enhanced service levels in the vicinity of key journey generators (such as NHS facilities and other key worker destinations). Using funds in this way could be a key driver to ensure that bus services emerge stronger and offer a better service to passengers following the pandemic and subsequent recovery phase.

There will be a gap between the cost of letting and managing the contracts, and the amount of funding that Local Transport Authorities can provide from existing budgets. This gap will need to be bridged by a Government grant to LTAs, payable at a set rate initially then reconciled subsequently to actual shortfalls using an open book approach.

For this proposition to operate effectively and flexibly, Government will need to relax the current limitations on de minimis contract awards (currently limited to 25% of net LTA spend). UTG has already supplied DfT with an assessment from our legal group on how this could be done.

At the same time, measures need to be put in place to ensure LTAs can prevent or suspend the normal competitive market activity which could significantly disrupt or undermine wider Government and LTA objectives if new entrants, or existing operators, decided to move in to cherry pick the most profitable corridors. This can be done by secondary legislation, which would in effect give transport authorities a power of veto over new services, undermining the value for money and integration of the network as a whole. Alternatively, the registration period could be extended for new services to six months.

This new format for bus funding:

- would mean that transport authorities can hold down, and simplify fares, and protect key services through contract specification on a route by route basis

- would mean transport authorities can better plan public transport networks for city regions as an integrated whole by allowing them to plan bus and light rail networks together (combined with whatever influence they already have over heavy rail networks)
- would be legally robust as all available funding is contractually and explicitly tied to clear outcomes
- offers good value for money as all the funding is directed to specific contracted outcomes by transport authorities on the ground rather than by civil servants whose understanding of local contexts and circumstances is necessarily limited
- Simplify the audit processing

It is important to note that although we believe this funding format will make the best use of available public funding for bus services, it rests on individual authorities being confident that the sums of funding devolved are sufficient for them to deliver their aspirations for local bus services.

This funding format would also provide a sound basis for a transition to the options available to them in the Bus Services Act 2017 – including franchising and enhanced partnerships.

We believe that there are also ways in which the provisions of the Bus Services Act 2017 could be streamlined to take into account lessons learned so far on its adoption. We have shared with the DfT the assessment of our legal group how best this could be done.

Interplay with capital funding

The proposals set out above for revenue funding reform would also complement national and local government capital investment in bus fleets and supporting infrastructure (such as bus priority measures).

City region transport authorities have invested heavily in bus priority measures over the years and have extensive plans for further investment.

For example:

- The Transforming Cites Fund programme in Tyne and Wear will include 21 kilometres of new or improved bus priority measures, supported by bus priority at 160 traffic signal junctions
- In Liverpool City Region new green routes will be introduced with a focus on Liverpool, Knowsley and St Helens. This programme will deliver 41 signal upgrades and 18 priority lanes. There will also be measures such as parking/loading enforcement reviews, two new red routes and a strategic rerouting study in Liverpool
- Transport for Greater Manchester has undertaken a large programme of bus priority works including flagship projects like the Cross City Bus Package, Oxford Road Corridor and the Leigh Guided Busway. The Oxford Road corridor (one of the busiest bus corridors in England) scheme delivered bus priority, improved cycling and walking facilities, and a transformed urban realm through a single package. A key segment of this was a 1.6 kilometre bus, hackney carriage/taxi and cycle only section leading into the city centre; all of which has increased bus punctuality and reliability.

In addition, the Government has pledged £3 billion (expected to be largely capital) to improve bus services including the introduction of 4,000 new zero emission buses.

There is the opportunity therefore for a virtuous circle where capital investment improves bus journey times whilst sufficient, devolved and well targeted revenue support is used to ensure there is a simple, network of affordable services taking advantage of that new infrastructure.

A timeline for real change for the better

In order to make this transition as soon as is practicable, the following steps will need to be taken:

- DfT will need to undertake the necessary legal work to prepare the way for the changes to the regulatory regime. This will allow Temporary Local Bus Contracts to be put in place and for BSOG and CBBSG to be routed to those transport authorities that wish to take it on.
- In dialogue with DfT, transport authorities will need to establish the levels of funding they would require and a timeline by which they would be able to receive the funding, and establish Temporary Local Bus Contracts
- DfT will need to undertake modelling of the likely scale of funding required for each of the next three years to a) maintain patronage at pre-pandemic levels, and b) increase patronage in line with different sets of objectives
- DfT will need to review the experience of having implemented the Bus Services Act 2017 hitherto, with a view to streamlining the franchising and enhanced partnership provisions as soon as possible
- DfT will need to review their capital investment plans for bus (including the commitment to 4,000 zero emission buses) so that they dovetail and complement these revenue funding reforms
- During 2021/22 there should be a review of potential further simplification and integration of funding for local public transport in urban areas, including funding of ENCTS

FAQs

How long would it take to introduce Enhanced Partnerships or Franchising?

In terms of the timeline for introducing Enhanced Partnerships or Franchising, there are a series of variables that come into play (and may have different impacts in different areas).

These variables include:

- Whether or not the process has already started in an area
- An enhanced partnership involves de facto negotiation with the operator (and potentially with district councils / DfT if it relates to wider capital programmes involving highways). The length of negotiations can be affected by numerous factors including how rapidly all sides move to progress the negotiations. Experience of both existing voluntary and enhanced partnerships suggest this can take some time especially when it comes to translate high level aspirations into binding commitments.
- The extent of the uncertainties around the duration of the pandemic, future patronage levels, central Government funding support and the wider state of local government finances
- The scale of ambition of the Franchise or Enhanced Partnership in terms of the outcomes that are sought on the ground and the territory it covers (such as if it is covering a conurbation or covering a district)
- Whether or not the 2017 legislation on Enhanced Partnerships and Franchising is streamlined
- On franchising, the extent to which incumbent monopolies seek to slow, game or legally challenge the process
- The local and Mayoral Elections in May 2021, which will also have an impact in terms of local government decision-making processes

Would this proposition work in rural areas and unitary authorities?

The contracting model that we are proposing, albeit on a larger scale than today, is familiar to every LTA in England. They will need to work with operators to deliver the bus network planning required, but that is what happens already in order to comply with bus registration requirements.

There are a small number of local authorities who have no secured bus services and therefore do not possess the resources to manage a process like this. This is an issue that already affects such local authorities in respect of their duty to agree networks to be delivered by CBSSG, so this is not a burden unique to our proposition. However, neighbouring and nearby larger local authorities can lend assistance in the few places where this issue arises, or external resources can be bought in to assist.

Even if a uniform approach was not taken in the application of the policy to all Local Transport Authorities, it would still be entirely justified to apply the policy to the largest urban areas given that:

- there are already two different systems in operation for buses more widely (regulated London and deregulation elsewhere)

- the Government already takes a differential approach to wider governance – with broadly speaking, one model which is used for city regions (Mayoral CAs) and another model elsewhere (either single or two tier local authorities)

- the population of the Metropolitan areas is around 12 million and 900 million bus journeys a year are made in the Metropolitan areas (a significant proportion of bus patronage outside London)

The alternative is a lowest common denominator approach where the system of funding for bus services for conurbations with populations in the millions, who invest substantially in bus services, and where bus trips per head are high is, in effect, determined by what system will work for small rural councils, who may invest little in supporting bus services and where the bus has a tiny market share and a very low number of trips per head.

This would clearly be a nonsensical approach, which is entirely inconsistent with wider Government policy on devolution (which is not based on a one-size-fits-all approach) and would work against the Government's wider objectives for promoting bus use.

What about cross boundary services?

Cross boundary services can be dealt with by neighbouring LTAs agreeing a specification for the relevant service, then agreeing which LTA will lead the contracting of that service. There are models in the Bus Services Act 2017 that can be deployed to facilitate this.