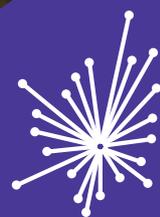


A SMOOTHER RIDE

Reviewing the Bus Services
Act 2017 to empower
local areas



**URBAN
TRANSPORT
GROUP**



**Government
Association**

FOREWORD

Local government know their communities and their transport needs best. The Bus Services Act 2017 and the National Bus Strategy constituted a welcome but long overdue change in central government policy attitudes, finally recognising that local leadership works best for local transport. New powers and new requirements to take them up have affected bus services in every corner of the country from the biggest city to the smallest village.

But have these changes lived up to the spirit and ambitions set out by Government? Have better buses been able to play the greatest role possible in a cost of living, air quality and climate crisis? With the first franchised bus services about to begin running in Greater Manchester, the Local Government Association and Urban Transport Group take this opportunity to reflect on what has worked well and what could be improved.

We find that Government could achieve much more, with less, if it can lift the barriers to local government taking greater local leadership: remove the formal restrictions stopping towns and rural areas from taking greater control through franchising; ease the onerous requirements that Mayoral Combined Authorities must fulfil to use their franchising powers; and provide more funding and greater flexibility for local areas to decide how each £1 of spending on local buses can get the maximum benefit for the local community.

We look forward to working with the Government to fulfil our shared ambition for a national revival in bus patronage with a local revival in transport leadership.

Councillor Darren Rodwell, Chair of the LGA Local Infrastructure and Net Zero Board

Jason Prince, Director, Urban Transport Group

Report authors: Rod Fawcett, RF Policy and Rebecca Fuller, Urban Transport Group
September 2023

About Urban Transport Group

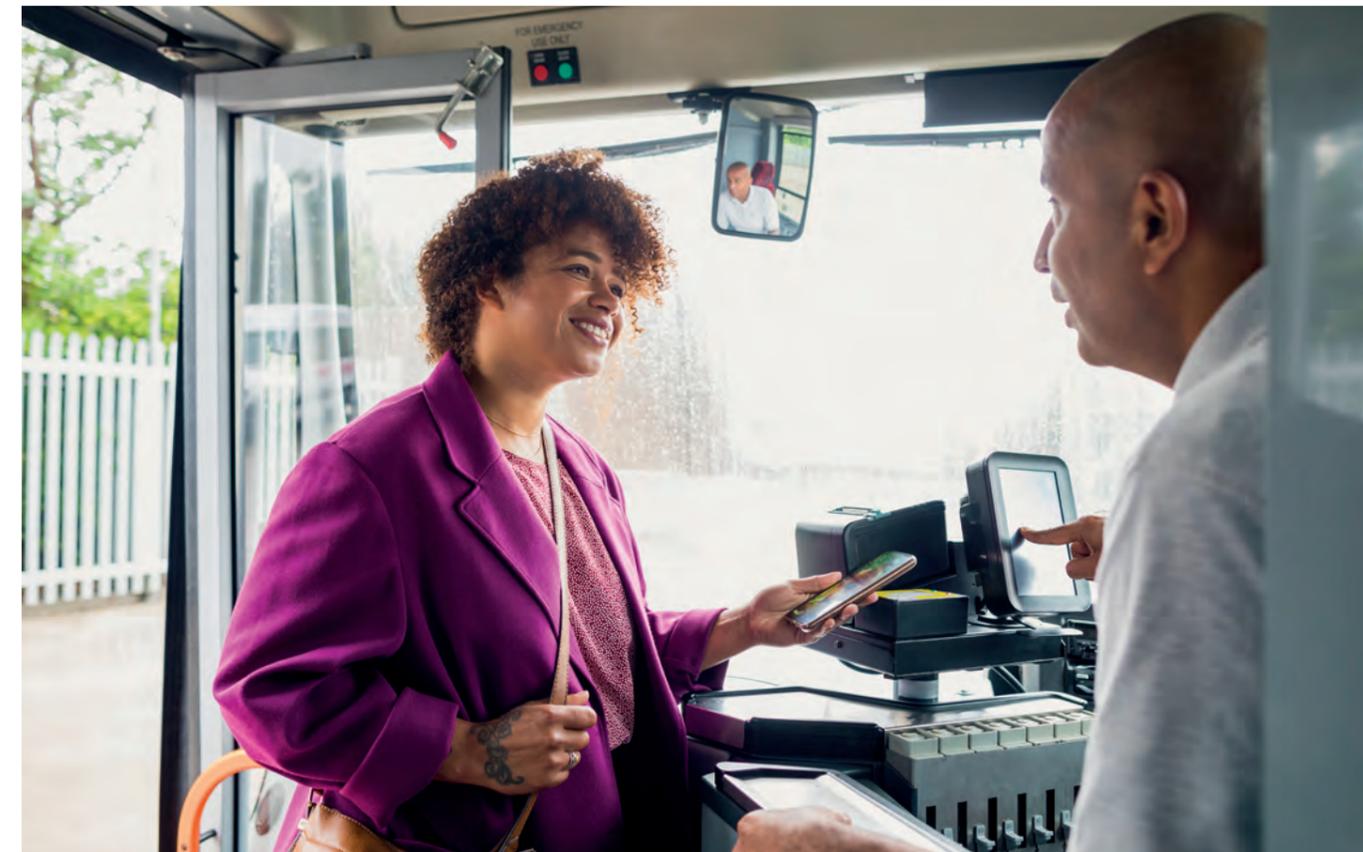
The Urban Transport Group (UTG) is the UK's network of city region transport authorities.
urbantransportgroup.org

About Local Government Association

The Local Government Association (LGA) is the national voice of local government, working with councils to support, promote and improve local government.
local.gov.uk

CONTENTS

Executive Summary	4
Background	5
Enhanced Partnership schemes in practice - and how they can be improved	9
Franchising in practice - and how it can be improved	12
Enabling the creation of municipal bus companies	20
Funding reform and support - better value for money	22
References	26



EXECUTIVE SUMMARY

Buses are the lifeblood of the UK's public transport network. They are the nation's most used form of public transport, delivering multiple economic, social, health and environmental benefits.

However, despite their popularity and utility, bus services have been trapped in a spiral of decline, exacerbated by the COVID pandemic. Patronage, mileage and service levels are falling. Shrinking networks increasingly require public support to maintain as commercial operators focus on the most profitable routes. Constrained local authority budgets make the task of patching and mending gaps in the network more challenging than ever.

Meanwhile, recognising the huge benefits that good bus services bring, the **National Bus Strategy for England – Bus Back Better**, set out a compelling vision for transforming the fortunes of bus. It committed to increasing patronage and mode share through more frequent, cheap, reliable, integrated and easy to understand bus services.

It also made future bus funding dependent on local transport authorities making use of the powers contained in the Bus Services Act 2017, to establish Enhanced Partnerships (EPs) or franchising to demonstrate their vision and planned actions for improving bus services in their areas.

The Strategy also committed to reviewing the decision in the Act to ban the creation of new municipal bus operators despite the success of this model in areas like Nottingham and Reading and the benefits this could bring as an additional means of securing improvements to bus services.

Six years on from the publication of the Bus Services Act, and considering the vision and ambitions presented in the National Bus Strategy, this report sets out to review the provisions of the Act focusing on:

- **What can be done to improve Enhanced Partnerships and make it more likely that they will lead to significant improvements in bus services?**
- **What would enable all areas to pursue franchising and how can the process be streamlined and de-risked?**
- **What would need to be changed to enable the creation of municipal operators?**
- **What changes could be made to funding streams to enable greater utilisation of the above options and better outcomes?**

It contains a series of recommendations for legislative change as well as quick wins around updating guidance and tools that could support better bus services in cities, towns and communities across the country. Through these changes, government could lay the platform to allow the bus sector to thrive and for local authorities to play their part in delivering better outcomes for passengers to support economic growth.



BACKGROUND

The **bus is the UK's most used form of public transport**. It is a crucial lever for local economies. Buses deliver multiple and overlapping economic, social, health and environmental benefits and help create thriving places, with each **£1 invested in bus estimated to bring an economic return of £4.48¹**.

If supported sufficiently, the true value of buses could be realised, through refreshed regulation and coherent, predictable and long-term investment by local and central government. In this way, they can flourish, offering high quality, affordable transport and, crucially, attracting new passengers. In a climate and cost of living crisis, green, affordable bus services represent a crucial economic investment.

How buses operate

Bus services outside London were deregulated in 1986. Since then, there have been two systems of bus provision – one for London and one for the rest of Great Britain.

In London, buses operate under a franchised model. Transport for London (TfL, accountable to the Mayor) specifies in detail what bus services are to be provided in the capital. It decides the routes, timetables and fares – everything down to the colour of the buses. The services themselves are operated by private companies through a competitive tendering process.

This has given London a world-class, comprehensive bus network. Over 99% of Londoners are within 600 metres of a bus stop². It benefits from a fully accessible and modern vehicle fleet as well as integrated, smart and simple ticketing.

In the rest of the country, it is a free market. Anyone (subject to minimum safety and operating standards) can start a bus service. Operators are free to run whatever services they like as well as decide the fares they will charge and the vehicles they will use.

Local transport authorities (LTAs) outside of London cannot plan bus networks, they can only fill the gaps in commercial networks. LTAs have the power to subsidise routes that are not considered by bus operators to be commercially viable but are deemed socially necessary. This is almost always done through a contract with a bus company.

LTAs have been increasingly called upon to support socially necessary bus routes as commercial networks shrink, with COVID accelerating an existing pattern of decline. At the same time, pressures on local authority budgets³ have made it difficult to preserve and maintain these routes.



The Bus Services Act 2017

In England, the Bus Services Act 2017 offered LTAs outside London hope for reversing this pattern of decline. The Act allows LTAs to franchise bus networks (or parts of the network). Under franchising, the local deregulated bus market is reformed, and bus operators instead compete to provide services under contract to the LTA.

As in London, **franchising enables LTAs to plan, develop and regulate bus services for their areas and offer passengers simpler, integrated ticketing and guaranteed levels of service quality.**

Under the Act, powers to pursue franchising were automatically granted to Mayoral Combined Authorities (MCAs) whilst other LTAs must seek permission from the Secretary of State (SoS) to proceed.

The Act also introduced new ways in which services can be improved within the existing deregulated market, including Enhanced Partnerships (EPs). An EP is a statutory partnership between one or more LTAs and their local bus operators, setting out how they will work together to improve bus services. Unlike franchising, bus operators continue to take fares revenue and make decisions on how bus services are run.

A further significant change in the Act was that it explicitly prohibited any kind of LTA from establishing a new, local authority-owned (municipal) bus company. This has been a contentious move given that, as the Bill moved through Parliament, no evidenced case against municipal operations was heard.

Bus Back Better: The National Bus Strategy

The powers contained in the Bus Services Act 2017 were given new impetus with the publication of the *National Bus Strategy for England: Bus Back Better*, in March 2021. It set out a vision for transforming the fortunes of bus services, committing to increase patronage and mode share through providing more frequent, cheap, reliable, integrated, comprehensive, and easy to understand bus services.

It set out the expectation that, by the end of June 2021, all LTAs (except those MCAs which had started the statutory process of franchising bus services) should commit to establishing EPs across their entire areas and that all operators should cooperate with that process.

Those areas which had not yet started the statutory process of franchising, but wished to do so, were required to commit to implementing EPs in the meantime, recognising that the franchising process is lengthy. Crucially, only LTAs and operators meeting those requirements would continue to receive the COVID Bus Service Support Grant, reformed Bus Service Operators Grant (subject to consultation) or any new sources of bus funding.

These requirements effectively meant that, apart from Greater Manchester and Liverpool City Region (which had already begun the statutory process for franchising), all other LTAs had to commit to implementing EPs if they wanted to receive funding for bus in the future.

The Strategy also committed to *'review whether it remains right that local authorities cannot set up new bus companies.'*⁴ As yet, no such review of municipal bus operations appears to have taken place.

Using the Bus Services Act 2017 to bring Bus Back Better

The next section explores how the Bus Services Act 2017 has been used in practice and improvements that could be made to achieve the level of transformation envisaged in the National Bus Strategy.

It looks at:

- how the process for establishing EPs and franchising has worked in practice, and what improvements can be made to enable more authorities to benefit from these and help to ensure that the ambitions of the National Bus Strategy can be achieved.
- what would need to happen to enable the creation of municipal bus companies, given the Strategy's commitment to revisit this option.
- what funding reforms and support may be needed to enable greater utilisation of all of these options and the delivery of better outcomes.



ENHANCED PARTNERSHIP SCHEMES IN PRACTICE – AND HOW THEY CAN BE IMPROVED

What is an Enhanced Partnership?

An EP is statutory partnership between one or more LTAs and their local bus operators to work together to improve local bus services. It aims to present a clear vision for improved services (the EP plan) and set out actions to achieve this vision (the EP scheme(s)). Once made, the EP scheme(s) apply to any bus services which are run in the geographical area of the scheme, including new entrants not involved in the original partnership.

An EP scheme involves exchange and negotiation. LTAs may, for example, commit to investing in bus lanes to make services more attractive and profitable. Operators, in return, may agree a set of standards such as on frequencies or vehicle quality.

The scale of an EP can vary from addressing a particular issue on a particular street to improving buses across a city region.

The process of setting up an EP⁵

LTA publishes a notice of intention to pursue an EP

The LTA and bus operators prepare an EP

The LTA must get sufficient support from operators in the plan or scheme area (what is considered sufficient is based on a combination of the number of operators and their market share)

If sufficient support is received, the LTA consults on the draft EP

If the authority amends the EP following consultation, operators are given a further chance to object

The LTA decides whether to implement the EP if sufficient support is gained

Key challenges to Enhanced Partnerships

Submissions to the Transport Committee's inquiry into the implementation of the National Bus Strategy⁶ stated that negotiating, establishing and maintaining EPs can be extremely time consuming for LTAs and for operators alike.

A key challenge of the EP approach is gaining the required levels of trust and consensus. Operators have the opportunity to participate in the development of an EP and to have a formal say at several key stages.

Whilst EPs rightly permit local incumbent operators with the ability to object, it remains open to question as to how far a mechanism that permits all incumbents to pursue their self-interests can simultaneously deliver the step-change required in service delivery, fares and other passenger benefits. As a result, **some LTAs report that it can be a struggle to realise any 'enhanced' outputs from EPs**, especially those not linked to funding.

Recommendation: To support de-risking of the EP process, review the objection thresholds so that they are not used to unreasonably stop authorities and groups of operators progressing EPs.

Objection thresholds should be set at levels which allow for valid objection, but do not allow for small groups of operators (particularly larger operators) to block an otherwise effective EP.



Enhanced Partnerships and competition law

A further constraint on enhanced outputs concerns **competition law which may place limits on the ticketing and fares initiatives that can be included as part of an EP.**

The Competition and Markets Authority (CMA) is a statutory consultee on EP plans and schemes. If it considers that an EP may not meet the competition test, it may conduct an investigation⁷. However, according to advice published by the CMA in May 2023, the CMA *'cannot provide legal assurances on whether schemes and plans comply with competition law. It is for LTAs to apply the [competition] Test and make any relevant competition law assessment themselves.'* Such a risk may deter authorities from pursuing bolder changes to fares and ticketing.

More broadly, (and unlike the franchising option) under an EP the market remains deregulated and on-road competition continues, placing restrictions on the extent to which bus services and fares can be fully coordinated and simplified.

The **inherent limitations of EPs together with the fact that they are a novel, untested form of delivery raises concerns as to their ability to truly transform bus services** in the way envisaged in the National Bus Strategy.

Furthermore, there are questions as to whether the levels of available funding to implement EPs (or franchising) are sufficient to facilitate an ambitious approach to turning bus services around.

Recommendation: Urgently review the performance and delivery of EPs against their objectives to assess whether they are delivering the scale of improvements as set out in the National Bus Strategy. Lessons must be learnt rapidly to inform the budget and strategy required to transform bus services.

Given the urgency of the task to transform the country's bus services, a 'wait and see' approach is not sufficient.

FRANCHISING IN PRACTICE – AND HOW IT COULD BE IMPROVED

What is franchising?

As noted by DfT in its introduction to the Bus Services Act 2017 powers⁸, franchising is ‘an established model for providing bus services used in London and in many cities and regions across Europe’.

Under franchising, LTAs can determine, for example, what bus services are to be provided, when and where; fares that are charged; and the standards those services should meet (for example, on emissions, passenger experience, branding). Operators then compete to deliver those services in line with the LTA’s specifications. No other services may operate in the area without the agreement of the LTA.

Franchising provides a means to ensure that bus services and fares are fully integrated, as envisaged in the National Bus Strategy (albeit special arrangements may be needed for services that cross the boundaries of the area).

Franchising allows locally accountable LTAs to take a strategic approach to planning the bus network, rather than patching and mending it wherever the commercial network falls down. It offers much needed certainty to LTAs on what they will purchase, as opposed to the uncertainty under deregulation where bus operators may decide to deregister any bus service no longer considered profitable and LTAs face a decision on whether they can step in and fund that service.

Franchising means networks can be planned as a whole to help ensure that bus services support wider goals for an area and integrate with other transport provision, based on the needs of local communities and the local economy. As public bodies, any surpluses generated can be reinvested in the network in support of those wider goals.



The Bus Services Act 2017 and how it limits the use of franchising powers

The DfT describes franchising as ‘a big decision which – as well as creating new opportunities – can have significant implications for existing bus operators and passengers and potentially expose local authorities to significant financial risks.’⁹

This is the reasoning behind the Department’s decision for franchising powers to be only available automatically to MCAs. Other types of authorities can request the powers, but secondary legislation is required to confer them, and the consent of the Secretary of State (SoS) is required before they can begin to use the powers. This effectively puts a restriction on those towns and rural areas that are not MCAs that may wish to pursue franchising.

So far since 2017, only one MCA (Greater Manchester Combined Authority) has pressed ahead with bus franchising, although other MCAs are now taking their first steps towards franchising or are actively considering it. Liverpool City Region consulted over Summer 2023 on its proposed scheme, with a decision due in December 2023. West Yorkshire Combined Authority have also announced franchising as its preferred option.

Franchising has not been pursued by any other type of authority. This is unsurprising given that, even for Greater Manchester Combined Authority, the process has proven extremely resource intensive and lengthy.

The process - The Greater Manchester journey to franchising

The process for setting up a franchising scheme is set out below along with timelines for each stage, based on Greater Manchester’s experience, as well as identified areas where time could be saved in the future:

	Actions	Timeline based on Greater Manchester experience	Potential to save time in the future
1	Preparation of an assessment of the proposed franchising scheme (akin to a business case). The authority can obtain data from incumbent operators to develop this assessment	June 2017-June 2019	The length of time taken at this stage can, to some extent, be attributed to first-mover disadvantage. The experience and lessons learnt from Greater Manchester could result in a speedier process for those that follow. A proportionate approach, simplification and frameworks to support assessments would be helpful in reducing the time taken.
2	Key elements of the assessment are assured by an independent auditor	June 2019-October 2019	
3	The LTA consults on the proposals	First consultation (October 2019 – January 2020) 86% of respondents support bus franchising Government announces measures to deal with COVID (March 2020) Second consultation conducted to explore how COVID may affect the proposals and business case (December 2020-January 2021) 82% of respondents support bus franchising	The consultation period would usually be 3 months. The second consultation was related to COVID impact assessment.

4	Decision taken by Mayor or authority to implement franchising.	Decision announced (March 2021) Two operators submit claims for judicial review centred around how COVID may affect the case for reform (March 2021) High Court rules that the decision and process to franchise bus services was lawfully carried out (April 2022) One bus operator seeks leave to appeal, which is granted on two technical points, Court of Appeal rejects the appeal (April 2022-July 2022)	Without COVID we can reasonably estimate that the Manchester decision would have been made in March/April 2020 (allowing 2-3 months to analyse consultation responses).
5	Procurement and award of contracts	First operators to be awarded contracts announced (December 2022)	The period up to the awarding of contracts is the procurement process, the length of which depends on LTA procedures. In the case of Greater Manchester, this took around five months.
6	Mobilisation and transition period (minimum of six months) to allow incumbent and new operators to adapt to the franchising arrangements	December 2022-September 2023	In Greater Manchester, the assessment process determined that 9 months was required.
7	Franchising implemented	First franchised buses enter service (September 2023) Tranche two enter service (March 2024) Tranche three enter service (January 2025)	

In the case of Greater Manchester, the total time taken between announcing its intention to prepare an assessment, to the first franchised buses commencing operation is over six years.

First mover disadvantage and COVID both contributed to these timelines. However, without COVID (and the complications this added) we estimate that the first franchised buses could have entered service by around May 2021, at the earliest.

Even on this reduced timeline, a Combined Authority Mayor who campaigned on a policy to improve buses through franchising would struggle to see this through in a single Mayoral term.



Considering the Greater Manchester experience, there is a strong case for further simplifying the process, reviewing the experience of the use of the legislation as it stands and how it could be improved. The case for change is particularly strong given the National Bus Strategy aspirations for 'main road services in cities and towns to run so often that you don't need a timetable'¹⁰, as well as full fares and service integration, which is challenging to achieve consistently and comprehensively through EPs but which franchising does facilitate.

Recommendation: Review the Bus Services Act 2017, and its associated guidance on franchising, taking account of lessons learnt from Greater Manchester with a view to reducing the time and costs involved.

The Bus Services Act and guidance, aside from two minor updates, is now over six years old.

A great deal could be learned from the Greater Manchester experience in looking for ways to make the franchising process quicker and more affordable. This should be reflected in the provision of up-to-date guidance, models and templates (e.g. model contracts) to help simplify, streamline and minimise risks and delays.

There are specific steps that could be taken to streamline and de-risk the process.

Recommendation: Make the assessment process for a proposed franchising scheme quicker, by making it less onerous.

The Bus Services Act 2017 guidance¹¹ effectively requires an authority to carry out an enhanced five case business case model (analysing the strategic, economic, financial, commercial and management case) arguably going beyond what would be required for a typical capital scheme. The process includes developing all five cases for options other than the preferred option.

Any process must, of course, carefully weigh-up the merits of what is a significant policy decision. It must also properly consider the impacts on incumbent operators to avoid risks of challenge either at legislation or assessment stage.

However, further simplification, templates and frameworks to support assessment would help, including a more proportionate approach depending on the scale of the proposals.

Recommendation: Ensure LTAs have the information they need from operators (at the right level of detail) when they need it, backed by an enforcement regime.

Whilst the information provisions in section 143A of the Transport Act 2000 allow for provision of relevant information about local bus services from operators, in Greater Manchester's case, this took time to obtain.

Data was requested from operators at the start of the assessment process (June 2017) but was not forthcoming. An appeal to the Traffic Commissioner was required and a ruling was not received until over a year later.

More recent experience post-COVID suggests that operators are now becoming more accustomed to sharing data with LTAs and government, however, greater clarity as to expectations (e.g. level of detail, format, timescales) and enforcement rights within the legislation could provide helpful reassurances.

The case for removing restrictions to franchising

It is important to note that Greater Manchester's scheme is on a large scale and covers an area where, pre-COVID, levels of commercial services were high, meaning franchising represented a radical shift.

Schemes franchising smaller areas, certain routes only or areas where much of the network is already supported by the LTA, may find that the transition represents a more modest change to how the network already operates and that procurement can be completed more rapidly. However, for these smaller scale franchising options, **the current assessment process seems particularly disproportionate to the scale of the task, particularly for towns and rural areas that are non-MCAs.**

The administrative costs of the process – in terms of officer time, legal advice, consultation costs and so on – are considerable. Whilst larger MCAs may be able to absorb these costs, for other, smaller local authorities, these are likely to be unaffordable in the context of a myriad of other pressures and challenges.

This is exacerbated by the fact that **before areas that are non-MCAs can even begin the franchising assessment process, they must first enter discussions with government to request the necessary powers** (which require secondary legislation). They then need the consent of the SoS to use those powers and begin to develop their assessment of the proposed franchising scheme. **This process is untested, and the additional time and resource needed for these preliminary steps is unknown and therefore risky for first movers.**

The length, complexity and cost of the franchising process also has implications for the success of EPs. It serves to reduce the leverage on incumbent bus operators to deliver their best service and fares within any EP. Knowing that the LTA has little alternative to an EP – given bus franchising remains so difficult and that barriers to entry for new operators are still so high – operators will have little incentive to enhance their offer.

The convoluted process, especially for towns and rural areas that are not MCAs to proceed with franchising has effectively ruled out this option for them. **This is neither rational nor fair.**

Recommendation: Allow all areas to have the same automatic rights as MCAs to access the franchising process.

Doing so would open up franchising to all cities, towns and rural areas and go some way towards reducing the burdens on non-MCAs wishing to pursue franchising.

Under section 123A(4) of the Transport Act 2000, only MCAs are automatically franchising authorities. Other categories of LTAs can only be franchising authorities if the SoS agrees and makes the necessary regulations.

In theory the SoS could take a different position and pass regulations to automatically make one or more further categories of LTAs franchising authorities (albeit including any additional protective steps, if thought necessary.).

Secondary legislation could simply allow other authorities to proceed straight to assessment.

It is worth noting that the Welsh Government has come out strongly in favour of franchising, proposing that it becomes a requirement across Wales. It also supports the creation of new municipal bus companies.

A bus service that serves the public interest: the Welsh Government approach

The Welsh Government's White Paper *'One network, one timetable, one ticket: planning buses as a public service for Wales'*¹² sets out a vision for creating a bus system *'governed and designed to serve the public interest, with the widest possible geographic coverage, fully integrated connections between different services, the highest possible service frequencies, and simple unified easy-to-use ticketing and information'*.

It views franchising, together with sustained investment, as the means to deliver this vision. The White Paper proposes legislation that requires franchising of bus services across Wales and also allows local authorities to create new municipal bus companies.



ENABLING THE CREATION OF MUNICIPAL BUS COMPANIES

The creation of municipal bus companies – a case for change

In England, whilst LTAs remain able to purchase an existing bus or coach company, the Bus Services Act 2017 expressly prohibits the creation of new municipal bus companies. The National Bus Strategy recognises that *'this part of the legislation is ripe for review'*. It notes that whilst there are only a handful of municipal bus companies, a number of these are strong performers.

According to DfT statistics for 2021/22¹³, after London (which operates under the franchising model), three areas enjoy the highest levels of bus patronage per head in England. They are Brighton and Hove (110 bus journeys per head of population), Nottingham (93 journeys) and Reading (81 journeys). These figures were higher still pre-COVID. This compares to an England average for 2021/22 of 50 journeys per head.

It is surely no coincidence that two of the three are areas with municipally owned bus companies (Nottingham and Reading).

Nottingham City Transport: a municipal success story

Nottingham City Council's majority ownership of Nottingham City Transport (NCT) highlights the multiple benefits that municipally owned bus companies can provide to passengers, employees, taxpayers and local economies.

Awarded UK Bus Operator of the Year a record breaking five times, it delivers a commercial approach with sound financial dividends, good terms and conditions for staff and drivers and – above all – an excellent and frequent network of bus services that are integrated with the local light rail network. It enjoys high levels of passenger satisfaction.

NCT Directors are independent of the local authority, focusing on service improvement and investment. For its part, the Council requires NCT to deliver a social as well as a financial dividend, for example, sound employment practices and delivering services and frequencies that would not be offered on a purely commercial basis.



Allowing more local authorities to establish bus companies could enable more places to replicate the success of Nottingham and other municipals and run bus services tailored to the needs of their communities. This could present an alternative to franchising for some areas.

For example, it could help secure better value for money for supported bus service tenders issued by the LTA, particularly in areas where competitors are limited. Given the separation between the LTA issuing tenders, and the arms-length, council owned bus companies, all standard procurement and competition rules would be maintained (unless the municipal bus company was being used as an operator of last resort).

The Competition Commission inquiry into local bus services in 2011 found that there was both a lack of head-to-head competition between bus operators in many local markets and a lack of potential competition¹⁴.

Given the decline in operators since then, plus the impacts of COVID, the deregulated bus market is arguably at its least competitive ever, with dominant operators prevailing across large parts of local transport markets. It is in this context that the need for alternative suppliers of a crucial public good, in this case bus services, to stimulate competition and maintain service provision, is more pressing than ever.

Recommendation: Restrictions on the establishment of new municipal bus companies by local authorities should be removed.

This would require Section 22 of the Bus Services Act 2017 to be repealed.

This, alongside improvements to the EP and franchising processes as set out above, will provide LTAs with the right set of practical options and resources to reinvigorate local bus markets and ensure they support wider goals for the people and places they serve.

It is worth noting that in Scotland, the Transport (Scotland) Act 2019 (section 34) granted that an LTA may provide bus services if it is satisfied that such services will contribute to their wider policies. As noted in the previous section, the Welsh Government also intends to enable the creation of new municipals.

FUNDING REFORM AND SUPPORT – BETTER VALUE FOR MONEY

The case for funding reform

The delivery of the recommended reforms explored above would enable all LTAs across England and the government to realise higher value for their investment, delivering economic, social and environmental returns. However, this requires the current myriad of funding streams to be reformed. The key to these changes should be the bringing together and devolution of disparate funding pots and subsidies, which are currently prone to frequent changes in conditions and timescales. This could unleash the true potential of bus.

Simplification and devolution of funds

Support provided to bus operators from local and central government, typically amounts to around 40 per cent of total revenues, although during the height of the COVID epidemic, rose as high as 70 per cent for a short period of time¹⁵.

A substantial part of the tax-payer derived support is to cover the costs of concessionary travel, so is better understood as a fare subsidy for passengers. Another portion of it derives from LTAs offering tenders to run services that otherwise would not be run commercially, so again is not a straightforward subsidy. And finally, Bus Service Operator Grant (BSOG) provides operators with financial support linked to their fuel costs.

Noting the complexity of the current regime of revenue support, **the actual direct public subsidy into bus service provision is relatively modest**. LGA analysis conducted in 2023 found that the DfT spends more than £4.50 on subsidising rail passenger services for every £1 it spends on bus subsidy¹⁶.

Investing in bus arguably delivers the highest value spend of many transport investments, particularly when the wider, societal benefits of bus are fully taken into account, such as public health, air quality, social inclusion, safety and de-congestion benefits. Indeed, **each £1 invested in bus is estimated to bring an economic return of £4.48**¹⁷.

When it comes to capital investment into bus services, the picture is even more complex, with different capital funding regimes and national funding competitions applying to different types of LTAs, at different times. The general picture here has been of a stop-start, competition-led approach.

The National Bus Strategy committed to reform BSOG. The current structure of BSOG does not give the full range of flexibilities that are needed if public financial support is to be directed to the greatest effect. As the reimbursement of BSOG is principally linked to bus fuel consumption, it also fits poorly with the goal of decarbonising bus travel and encouraging the adoption of electric vehicles.

Reforming BSOG creates an opportunity to consider reforming the English National Concessionary Travel Scheme (ENCTS) too, or to develop a new support mechanism altogether. The end of the current Bus Services Improvement Grant funding package also presents a chance to review revenue funding packages in the round.

Current funding arrangements are far from the model of certainty that LTAs require to progress with EPs or franchising and invest in vital bus infrastructure. Sufficient and predictable funding, applied in a progressive manner, year-on-year would both drive down costs and provide better services to the passenger.

Timescale and cost challenges due to overly complex processes and incomplete powers are further compounded by restrictive, siloed and piecemeal funding pots. This puts further pressure on local authorities to retrofit their ambitions to make these fit with national funding pot conditions and limitations.

Recommendation: Bring together currently siloed and overly restrictive funding pots into one fully devolved funding settlement.

For authorities embarking on franchising, having full control and accountability for a simplified and overarching funding pot would enable them to focus on delivering the desired local outcomes of improved services and the corresponding economic and societal benefits. This would give confidence to elected decision makers locally and centrally, as well as Treasury and the DfT, that every penny spent goes directly towards delivering better services and outcomes.

Delivery of the specific reforms outlined in previous sections along with simplified and effective funding mechanisms could help authorities to not only realise the benefits of franchising, but also:

- Allow funding to be targeted in the most effective way locally given the hyper-local nature of bus services.
- Attract and maintain staff resources to fulfil everyday transport planning needs, respond to immediate challenges, and also devote time to undertaking and managing studies which explore and deliver innovative changes in transport.
- Deliver actions to push forward local transport ambitions in a more strategic way, including infrastructure improvement, through capital and revenue funding.
- Have sufficient resource to staff and fund actions which provide access to additional funding sources, e.g., to develop local revenue raising projects, such as a Workplace Parking Levy.

Long term investment

In 2021, public revenue expenditure on bus services was over £500m per year less than in 2010/11 according to the Confederation of Passenger Transport¹⁸. Falling funding to local government has left supported bus services exposed to cuts as local authorities seek to balance the funding needs of other vital services. Funding for supported bus services by local government outside of London has fallen by 43 per cent over the past decade, meaning fewer services can be supported.¹⁹

Furthermore, the LGA estimates that the 'gap' in the funding councils receive from government for the national concessionary fares scheme compared to the actual number of journeys made last year was £452 million²⁰. One effect of the funding gap has been to force 'councils to plug the gap from their own stretched budgets. Discretionary bus services - such as free peak travel, community transport services, reduced fares and school transport - have had to be scaled back by local authorities across the country for them to top up the statutory national scheme from their discretionary budgets.'²¹

The cumulative effects of reduced revenue support for bus have been stark. The Campaign for Better Transport estimate "that miles of local authority supported bus services have declined markedly, more than halving between 2009/10 and 2017/18" and "the loss of local authority funded services has not been made up for with new commercial services."²² For urban areas reductions in bus mileage often mean reduced frequencies, leading to reduced usage; for rural areas, mileage reductions can often mean the curtailing of key bus services completely.

Recommendation: As a minimum, maintain in real terms the levels of bus investment made during the current Parliament through the next five-year term, providing certainty of funding, and help shape a broad consensus on the value of bus investment over the longer term.

To genuinely create the virtuous cycle of bus patronage growth, consequent revenue growth and re-investment into strengthening networks through route development, frequency enhancements and affordable fare policies, the levels in bus investment experienced from the start of the COVID pandemic must at least be maintained, increased to meet inflationary costs and secured over the longer term.

This is very much a minimum starting point to maintain current bus services and offer a degree of certainty.

To deliver the transformational change envisaged by the National Bus Strategy and fully realise the potential of the bus to deliver on wider economic, social, health and environmental goals, enhanced investment is required.



Investing in bus services represents excellent value for public money²³, with every pound achieving multiple policy goals from cutting the costs of congestion to reducing carbon.

With the improvements suggested in this paper, the powers contained in the Bus Services Act 2017 can be used by more areas to ensure investment in bus delivers the best possible value for money and is targeted to make maximum impact to the people and places it serves.

REFERENCES

- ¹KPMG (2020) Maximising the benefits of local bus services
- ² [https://www.london.gov.uk/who-we-are/what-london-assembly-does/questions-mayor/find-an-answer/planning-bus-services-3#:~:text=Transport%20for%20London's%20\(TfL's\)%20bus,assess%20comprehensiveness%20and%20network%20coverage](https://www.london.gov.uk/who-we-are/what-london-assembly-does/questions-mayor/find-an-answer/planning-bus-services-3#:~:text=Transport%20for%20London's%20(TfL's)%20bus,assess%20comprehensiveness%20and%20network%20coverage).
- ³ Transport Committee (2019) Bus Services in England outside London <https://publications.parliament.uk/pa/cm201719/cmselect/cmtrans/1425/142507.htm>
- ⁴ DfT (2021) Bus Back Better https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/980227/DfT-Bus-Back-Better-national-bus-strategy-for-England.pdf
- ⁵ DfT (2017) The Bus Services Act 2017: New powers and opportunities https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918498/bus-services-act-2017-new-powers-and-opportunities.pdf
- ⁶ Transport Committee (2022) National bus strategy: one year on <https://committees.parliament.uk/work/6556/national-bus-strategy-one-year-on/>
- ⁷ Competition and Markets Authority (2023) Bus Enhanced Partnerships: Advice for Local Transport Authorities https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1157109/CMA_Bus_Enhanced_Partnerships_Update_Paper_post_legal_review_.pdf
- ⁸ DfT (2017) Bus Services Act 2017: new powers and opportunities https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918498/bus-services-act-2017-new-powers-and-opportunities.pdf
- ⁹ DfT (2017) Bus Services Act 2017: new powers and opportunities https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918498/bus-services-act-2017-new-powers-and-opportunities.pdf
- ¹⁰ DfT (2021) Bus Back Better https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/980227/DfT-Bus-Back-Better-national-bus-strategy-for-England.pdf (Pg. 4)
- ¹¹ DfT (2017) The Bus Services Act 2017: Franchising Scheme Guidance https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918664/bus-services-act-2017-franchising-scheme-guidance.pdf
- ¹² Welsh Government (2022) One network, one timetable, one ticket: planning buses as a public service for Wales <https://www.gov.wales/sites/default/files/pdf-versions/2022/3/4/1648713506/one-network-one-timetable-one-ticket-planning-buses-public-service-wales.pdf>
- ¹³ DfT Bus Statistics Passenger journeys on local bus services per head by local authority (Table BUS01f)
- ¹⁴ Competition Commission (2011) Local bus services market investigation <https://www.gov.uk/cma-cases/local-bus-services-market-investigation-cc>
- ¹⁵ Bus Expert Roundtable, DfT June 2022, data from the University of Southampton
- ¹⁶ LGA (2023) Thousands of bus routes at risk amid funding uncertainty, News Release 16/02/23 <https://www.local.gov.uk/about/news/thousands-bus-routes-risk-amid-funding-uncertainty>
- ¹⁷ KPMG (2020) Maximising the benefits of local bus services
- ¹⁸ Transport Select Committee; National Bus Strategy inquiry, submission by CPT, March 2022 <https://www.cpt-uk.org/media/u0rlxu2a/transport-select-committee-review-of-nbs-one-year-on-cpt-submission.pdf>
- ¹⁹ The Future of Bus Funding (2018) Campaign for Better Transport
- ²⁰ LGA (2023) Future of local buses at risk as councils face £450 million bill to prop up national free bus pass scheme, News Release, 29/06/23 <https://www.local.gov.uk/about/news/future-local-buses-risk-councils-face-ps450-million-bill-prop-national-free-bus-pass>
- ²¹ Ibid
- ²² Campaign for Better Transport (2019) The future of the bus: Future funding arrangements <https://bettertransport.org.uk/wp-content/uploads/legacy-files/research-files/future-bus-funding-arrangements.pdf>
- ²³ UTG (2021) Back the Bus to Level Up <https://www.urbantransportgroup.org/index.php/resources/types/report/back-bus-level>



Wellington House, 40-50 Wellington Street, Leeds LS1 2DE

T 0113 251 7204

E info@urbantransportgroup.org

www.urbantransportgroup.org