Report
February 2023

Urban Public Transport Funding – Options for Reform

Urban Transport Group
Our ref: 24312601

steer

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Executive Summary

Why Local Public Transport Matters

Urban public transport matters economically, socially and environmentally. The impacts of urban public transport stretch across a whole range of national policy areas. Growing public transport use will help support the attainment of these polices, whereas falling bus and light rail use will have the opposite effect. The role of bus is recognised by the Government in *Bus Back Better,* its national bus strategy for England, and it has committed to invest £1.4bn over the life of the current Parliament to improve bus services and support patronage growth.

Around half of all bus users are dependent on bus for their travel. The young and the elderly have the highest propensity to use bus, as do the least well-off. Reduced bus services will mean that some of these people will have no viable travel alternative to get to work, education or to see their friends and relatives. A smaller public transport network means that remaining bus users will have reduced access to jobs, education, health and leisure activities, which will have knock-on negative impacts to the economy. Higher fares will make them worse off financially at a time when people are facing high gas and electricity bills and food price inflation.

In the city regions they serve, light rail is part of the local public transport offer. Light rail delivers substantial social and economic benefits. Light rail has supported economic growth in the areas that it serves, promoted social inclusion and led to environmental gain, including a reduction in carbon emissions.

Post-Pandemic Position of Public Transport

Covid led to unprecedented impacts on the way we travel. The decision in March 2020 to 'lockdown' society and, as part of that, advise people not to travel by public transport, led to a precipitous decline in use of buses, light rail and the national rail network. Demand dropped to a small fraction of pre-Covid levels. Government stepped in and provided financial support to ensure that initially bus, light rail and rail networks provided the connectivity needed for key workers to get to their jobs and then to build up and then maintain services close to pre-pandemic levels. In the last quarter of 2022, bus patronage outside London was at around 85% of its pre-pandemic level, but there is no immediate prospect of patronage returning to pre-pandemic levels.

In *Bus Back Better* the Government sets out its aim to restore bus patronage to pre-Covid levels and then for bus patronage to increase. If Government's Covid-related financial support to the bus sector ceases at the end of March 2023 as is the current intention, the combination of patronage being lower than pre-Covid levels and increased unit operating costs means there will be further decline in bus patronage. Past experience is that bus operators have responded to falling demand by reducing service levels and increasing fares. We consider this to be an extremely likely response to the planned Government cessation of Covid-related bus funding.

Without further intervention the Government's *Bus Back Better* aim of restoring bus patronage cannot be met, which means that its policy outcomes will not be met either.

Local Public Transport Funding – An Outdated System

Bus Services Operators Grant (BSOG) is the principal way that the Government supports day-to-day bus operations. Pre-pandemic, Government spent around £250m a year on BSOG. As

the reimbursement of BSOG is principally directly linked to bus fuel consumption, it fits poorly with the environmental policy objectives of decarbonising bus travel. Even though there are BSOG payments for electric vehicles, at present a bus operator would receive more subsidy if it increased its fuel consumption. BSOG is inflexible and there are questions about whether financial support can be better directed. Over the years BSOG has been subject to incremental change and in *Bus Back Better* Government has committed to reform BSOG, a recognition from Government that the current system is not working in the way that it wants.

The English National Concessionary Travel Scheme (ENCTS) provides free travel for pensioners and the registered disabled and functions as a reimbursement to bus operators. Administered by local authorities but supported by Government grant, the way that ENCTS works in practice is that there is a shortfall between the money granted to local authorities and the payments to operators. It has been stated that pre-pandemic there was a £200m shortfall between the ENCTS money local authorities received from Government and the £750m that they paid out. The way ENCTS was applied during the pandemic meant the scheme explicitly became an additional way that financial support was provided to the bus industry, but this was an implicit pre-pandemic feature too. Reforming BSOG creates an opportunity to consider reforming ENCTS too, or to develop a new support mechanism altogether.

While most buses outside London are provided 'commercially' by operators, local authorities can tender additional 'supported' socially necessary services. Pre-pandemic, a further £250m was spent by local authorities outside London buying additional bus services over and above what was provided by the market.

Funding the Future of Local Public Transport

The current funding mechanisms for local public transport are complex, opaque and not necessarily the best way of furthering national or regional policy goals. A reform of funding mechanisms could be instrumental in supporting the continued delivery of local public transport in a clear, directed and meaningful way, allowing more decisions to be made locally via a flexible funding mechanism. Focussing on England, this report looks at a number of options for reform of existing mechanisms and examines the advantages and disadvantages of each.

The long-term importance of local public transport is clear, as is the immediate need for funding to build resilience back into a system still recovering from the shock of the pandemic. Building on Government's ambitions for devolution, Combined Authorities can play a role to direct and manage capital and revenue funding with the goal of better achieving policy goals shared with Government.

An Immediate Need

Reform of public sector bus funding is needed, but any reform will take time. In the interim, Government's current intention is that the current tranche of Government emergency funding ceases at the end of March 2023. Should this happen, it would be a severe setback to the ambitions set out in *Bus Back Better*, which is to support wider policy goals through patronage returning to pre-Covid levels and then for patronage to grow.

A key question is what offers better value – to provide additional revenue support to maintain service levels and hence patronage, or to invest in capital schemes with the goal of making bus services more attractive to users and thereby attract greater patronage. Capital schemes take time to design, secure powers and funding, and then deliver. Experience is that once

patronage has been lost, it is hard to get back. Lower patronage would also undermine the case for capital enhancements to promote bus use that have already been made, as well as those planned for the future. If Government remains committed to the targets of *Bus Back Better*, there is an immediate need for further short-term funding to act as a bridge until more comprehensive funding reform is implemented.

Assuming that tendered bus service budgets, BSOG and ENCTS payments are maintained at pre-Covid levels, to maintain service levels in metropolitan areas, our assessment is that an additional £70-140m a year would be needed.

Like bus, light rail systems are unlikely to see patronage return to pre-pandemic levels, at least in the short to medium term. Pre-pandemic projections of future demand and revenue no longer will come about. Like bus, light rail is facing increasing costs – light rail operators are facing the same upward pressures on staff costs as are all sectors of the economy and their power costs are also increasing. In contrast to bus, it is much harder for light rail systems to escape operating costs through marginal changes to services. It would be naïve to think that there can be a quick return to the pre-pandemic financial situation of revenue covering day-to-day operating costs. If the value of past investment is to be maintained, further short-term support would seem necessary. The realities of the post-pandemic travel market and what this means to light rail means that there is a case for considering extending day-to-day support to light rail.

Longer Term Reform

Any reform to local public transport funding should be developed to ensure that the public sector gets the best value from its spending and has the greatest possible effect on attaining policy goals. Integral to this is having the following considerations in mind:

- To allow operators to form their investment strategies and local authorities to plan, there needs to be *certainty* on the scale of future funding over a number of future years. For capital funding for the national rail network, strategic road network and most recently, combined authority investment programmes, a five-year funding cycle has been adopted and this is a useful precedent.
- There needs to be the ability to *incentivise change* in the bus industry. The most pressing need in this regard is the need to decarbonise the bus fleet and move as quickly as possible to zero emission buses.
- Wherever possible, decisions on how to allocate funds to different local public transport services should be taken at a local level. As with capital funding, wherever possible there should be *local decision making*.
- There needs to be recognition that in some areas there will be *bus franchising* and this will lead to different cost structures for the public sector and private operators.
- The system should be *simple to administer* and not burden local authorities or operators with unnecessary costs, while also being transparent and allowing assurance that public funds are being used to the best effect.
- Consideration needs to be given to operators' *cash flow*. Currently BSOG payments are made quarterly in advance based on annual audited estimates of bus kilometres. Retrospective funding based on outturn performance (i.e. after costs have been incurred) would be counter to the goals of having network stability as a pre-cursor to future network expansion. It could also form a barrier to new entrants to the market, particularly from the Small and Medium Enterprise (SME) sector.

- There will be a need for a period of *transition* between support arrangements. Regardless of the system that is eventually adopted there will be a need for a transition period to allow operators to adjust and local authorities to evolve their approaches to supported services. The length of this will be a function of the complexity of the reform, with more complex options requiring a longer transition period. It will be important to avoid further shocks so soon after Covid, which suggests that transition periods may need to be longer than would otherwise have been the case.

Substantive reform will need to be subject to consultation between Government, local authorities and local transport operators. When thinking about reforming bus funding the starting point will be to set out what it is that is wanted to be achieved and then consider how alternative options meet these goals. Here we set out the options that we suggest Government should consider and assess against its goals.

Reforming BSOG

The options we have identified for reforming BSOG are:

- *Move to a per bus kilometre basis rather than per litre of fuel*: this is the simplest reform option. Such options could include incentives to promote change, for instance a higher rate could be applied to zero emission vehicles to incentivise their adoption. For this option, the question is then what the rates paid should be. This option would be relatively straightforward and quick to implement, requiring little change to established systems, but it also maintains the essential features of the existing BSOG regime which Government has committed to reform.
- *Move to a per passenger basis:* with this option, the focus would be on incentivising the greatest number of bus passengers per bus kilometre. Such an option would change the balance of funding between different types of services and the balance of funding between local authority areas with a shift from rural to urban areas. It is likely to be disruptive to the industry and hence to passengers. Unless it is accompanied by an increase of overall funding to compensate areas that would otherwise lose, network change is likely to have negative social consequences.
- *Move to a combination of per bus kilometre and per passenger payments*: a combination approach would allow a more balanced use of funding to achieve multiple outcomes such as support network coverage and promote passenger growth, but would maintain the unattractive feature of both the per bus kilometre and per bus passenger approaches. There is the opportunity to have different combinations in rural, urban and metropolitan areas. Such an approach still allows for additional incentive payments, for example for use of zero emission payments.

A Needs-based Formula

A further approach is to move away from usage-based payments and develop a needs-based formula approach. Funding would be allocated to local authority areas based on a formula, with each variable in the formula capturing some element of 'need' for bus services. This would be similar to the approach adopted for Highways Maintenance Block and Integrated Transport Block. The challenge with such approaches is developing a formula that can be supported by available data, while genuinely capturing need in England's diverse rural, urban and metropolitan areas. There is then a further question of how the calculated funding is then allocated to bus operators. However, this approach does give the ability for there to be an explicit link between policy goals and how funding is allocated, something that is missing from the current system and alternative BSOG reform options.

Wider Reform Options

A more fundamental reform of BSOG creates an opportunity to also consider the future of ENCTS. We see the principal reform option for ENCTS is to move away from a payment system which has the intent of leaving bus operators "no better, no worse off" to one which reflects the widespread benefits to society of providing free travel to concession holders. Such an approach would also address the shortfall between monies local authorities receive from Government via the Revenue Support Grant and the monies they pay out to operators. Currently ENCTS does not apply to light rail and the cost of any concessions to ENCTS pass holders have to be met by local authorities which means that provision varies across the country. The result is that what concessions a passholder gets depends on where in the country they live, which is unlike other benefits that they receive. Extending ENCTS to light rail would address this societal unfairness.

A New Bus Support Grant

Should there be ENCTS reform, this raises a further option in which both BSOG and ENCTS are abolished and are replaced by a new Bus Support Grant. While potentially the most complex reform option, once in place it has the potential to be more administratively simple and hence lower cost to administer than any other option considered. It is also likely to give the greatest long-term flexibility to respond to future circumstances.

Multi-Year Settlements

Multi-year revenue settlements would provide a level of certainty to operators and local transport authorities to make investment decisions, enabling each to plan across a number of years. While in theory multi-year revenue settlements could be applied to any of the options set out above, those approaches that use bus kilometres and/or bus passenger numbers would need to be based on forward estimates of use and could easily lead to over or under payments by the time the multi-year period comes to an end and then discontinuities in funding as a new period starts. In contrast, a needs-based formula allocation offers an approach better suited to a multi-year settlement.

Devolution

Devolution of multi-year revenue settlements to mayoral combined authorities would give the greatest flexibility for how funding is used to support the provision of bus services, with funding being used to shape and support a bus network that best meets the needs to each city region. Already, substantial capital funding is devolved to mayoral combined authorities and the devolution of bus support would be a natural continuation of this. Devolution would offer opportunities to pool different funding sources and for these to be used to the greatest effect. Outside the mayoral combined authority areas, it is recognised that not all local authorities would be ready or willing to take on devolved bus funding, but this should not be a barrier to devolving funding to those areas that are.

Funding

The question of reform cannot be separated from the question of how much funding is available. Getting better value than the existing system would be a pre-requisite for any reform option, but there also needs to be a link between the scale of funding and what is wanted from that funding. To be meaningful, any consultation on future reform options also needs to set out the future scale of the funding that is available, otherwise consultees would not be in a position to comment fully on the merits of the proposed options.

1 Introduction

1.1 In the year ending 31st March 2019, the last full year before the pandemic struck, 908 million bus journeys were made in metropolitan areas (Greater Manchester, Merseyside, South Yorkshire, Tyne & Wear, West Midlands, West Yorkshire) and 1,213 million were made elsewhere in England. A further 124 million journeys were made by the six non-London English light rail systems.

1.2 Before the pandemic, bus was the most utilised form of public transport. Outside London, together bus and light rail carried more passengers than the entire national rail network. Buses and light rail were central to many people's daily lives, giving access to their places of work, schools and colleges, shops and leisure activities, as well as being integral to their social lives.

1.3 The importance of bus to society was recognised by Government in March 2021 when the Department for Transport published *Bus Back Better*, its national bus strategy for England.[1] *Bus Back Better* sets out the Government's vision for future services, including more frequent 'turn-up-and-go' services, faster and more reliable services with greater priority for bus on urban roads, cheaper fares and simpler, easier to understand networks, as well as 'greener buses', with more ultra-low-emission and electric vehicles. Urban Transport Group's *Leading Light: What Light Rail can do for City Regions* sets out the economic and societal benefits secured by the nation's light rail systems and how expanded networks would grow these benefits.[2]

1.4 The pandemic had an immediate and severe impact on the number of people using bus and light rail. When the first "lockdown" was implemented in March 2020, bus and light rail patronage plummeted. Government provided emergency funding which ensured that bus and light rail could provide the transport services needed to allow key workers to continue to get to their places of work. With successive tranches of funding, Government has continued to support bus and light rail services through subsequent Covid-induced restrictions and lockdowns, and also to help maintain services which support the economic and societal recovery. As restrictions were relaxed, this support helped people get back towards a more normal life.

1.5 While the emergency funding has allowed bus and light rail services to be maintained close to pre-pandemic levels, the scale of the impact of the pandemic on local transport use can be seen by looking at passenger numbers: in contrast to the 908 million journeys made before the pandemic, just 323 million bus trips were made in metropolitan areas in the twelve months to the end of March 2021, rising to 593 million in the twelve months to the end of

[1] DfT (2021) **Bus Back Better: National Bus Strategy for England**

[2] Steer (2021) **Leading Light: What Light Rail can do for Cites**, a report for Urban Transport Group

March 2022. The picture for light rail is similar: 124 million journey pre-pandemic fell to 30 million journeys in the twelve months to the end of March 2021 and 75 million in the subsequent twelve months.

1.6 Bus and light rail patronage has continued to recover since the end of March 2022. In the last quarter of 2022, bus patronage outside London had recovered to around 85% of pre-pandemic levels. However, all the indications are that it looks unlikely to recover to pre-pandemic levels by the time the current tranche of Government emergency funding comes to an end in March 2023. Previous work undertaken by Steer for UTG suggested that patronage is unlikely to recover to more than 90% of what would have been expected in the absence of the pandemic, which suggests further substantive recovery maybe unlikely without significant wider policy intervention. At the same time and like the rest of society, bus and light rail operators are facing increasing costs – fuel is more expensive and there is upward pressure on wages, with the latter due to the twin pressures from the cost of living crisis and sectoral staff shortages, notably drivers. Even without these cost increases, bus operators would have faced a situation where their revenue is insufficient to meet their operating costs and a provide reasonable margin. Increasing fuel and wage costs just makes this situation worse.

1.7 The likely outturn at the end of March 2023 is a network with patronage and hence revenue less than pre-pandemic, but with higher operating costs. Without further intervention, there will be a need for either further service reduction and/or fare increases. Even with on-going emergency funding, across the country bus services are already being withdrawn.[3] Light rail is facing similar challenges: lower patronage means lower revenue, all while experiencing increasing costs.

1.8 Because of the benefits that it brings, in *Bus Back Better* the Government set a goal of bus patronage returning to pre-pandemic levels and then for patronage to grow, a goal shared by city regions across the country. However, an end of financial support and then shrinking networks and increasing fares would mean that patronage would decline further rather than increase. Before the pandemic, light rail patronage was growing but the prospects are for fare increases and/or service reductions, with a negative impact on the economic and societal benefits that light rail brings.

1.9 Periodic announcements of ad hoc emergency Government funding support cannot continue indefinitely. Government has set a goal to reduce its current account deficit,[4] but also Government and the wider public sector need longer term certainty to be able to plan their budgets and how these are used to support the day-to-day operation of local public transport. Operators need greater certainty if they are to invest in the decarbonisation of their fleets. Pre-pandemic, Government's financial support to local public transport sector outside London was substantial: £1.27 billion in 2018/19, the last full year before the pandemic. However, the way that this funding is provided is complex and there are questions about whether it is best directed, as well as whether there are more cost-effective ways of administering and distributing funds. Over a number of years, Government has stated its intention to reform the financial support that the bus industry receives from the public sector. The need now is urgent. What is needed is a long-term solution to how the public sector supports local public

[3] Campaign for Better Transport (2022) *Funding local bus services in England*, p4

[4] UKGOV (2022) **Autumn Statement 2022 HTML - GOV.UK (www.gov.uk)**

transport –for both buses and light rail. What is needed is a solution that secures the greatest possible value from the funds available. This report explores options for such a reform.

Scope

1.10 This report reviews the existing funding mechanisms for bus and light rail in England and outlines potential options for funding reform. Its focus is on public transport in metropolitan areas, but it is recognised that existing financial support to public transport is through national schemes. Other locally-controlled funding and revenue sources are not considered, although it is acknowledged that considering funding and revenue in the round creates an opportunity to secure better outcomes than would be the case than if each funding and revenue sources are considered in isolation. London is also not considered as its funding and operational processes have been historically separate from the remainder of the country and reflecting this, in August 2022 Transport for London agreed a funding settlement with Government for the period to the end of March 2024. In Scotland and Wales, transport policy is a devolved matter. Scottish and Welsh Government local public transport is also not within the scope of this work.

1.11 National rail services are important parts of metropolitan areas' public transport networks. However, and while progress is slower that initially intended, Government is in the process of implementing rail sectoral reform, which is likely to see changes to the ways the sector is lead, private sector participation in operations is secured and the extent/nature of regional partnerships, which together will change the way passenger rail services are provided and the way that Government financially supports that national rail network. As a consequence, national rail services are not a focus of this report.

Report Structure

This report will be structured as follows:

- **Chapter 2** sets out how local public transport supports the Government's wider aims and policies;
- **Chapter 3** examines demand and funding of local public transport before, during and after the pandemic;
- **Chapter 4** details national and local policy concerning local public transport;
- **Chapter 5** describes current financial arrangements for supporting local public transport;
- **Chapter 6** provides detail on the delivery of local public transport;
- **Chapter 7** sets out and assesses options for reform to local public transport funding; and
- **Chapter 8** draws together the key conclusions from the report and sets out recommendations.

2 How Local Public Transport supports Government's Policies

Introduction

2.1 This chapter looks at how local public transport supports Government's policies. It does this first by considering who uses local public transport and why they make the journeys that they do. We go on to look at the benefits of local public transport, which can broadly be divided into four categories: social, environmental, health and economic. It is these benefits that support the attainment of Government's wider policy agenda.

2.2 In this Chapter, we look at data for 2018/19, which is the last full financial year before the pandemic. This is valuable as it shows the extent that bus and light rail were catering for different travel markets and contributing to different policy goals before the disruption that came about due to the pandemic. Later we look at how the pandemic has affected local public transport patronage.

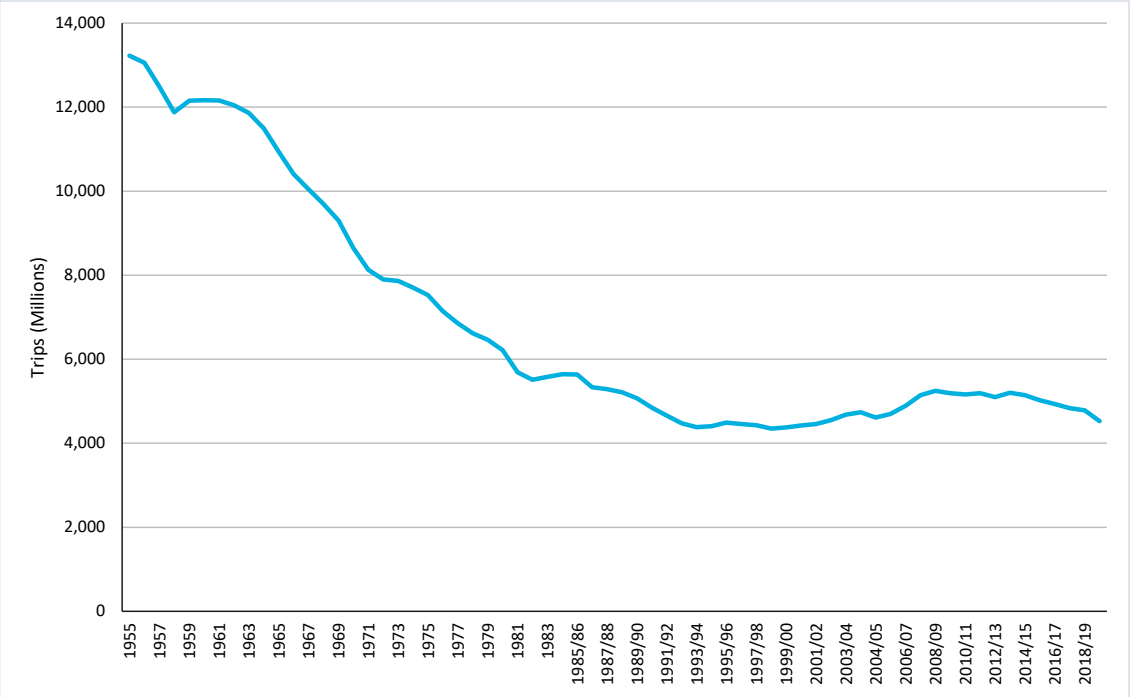
The Importance of Local Public Transport

Trends for Bus

2.3 In the year ending 31st March 2019, 4.8 billion bus journeys were made in Great Britain. This is more than the number of journeys made on the national rail network and London Underground added together. For many, bus is the only mode of public transport available to them.

2.4 While bus is the most utilised mode of public transport, bus passenger numbers have experienced a steady decline over the last seven decades, as shown in Figure 2.1. This is in contrast with the national rail network, London Underground and the country's light rail networks which have seen steady growth up until Covid-19.

Figure 2.1: Bus Patronage – 1955 to before the pandemic

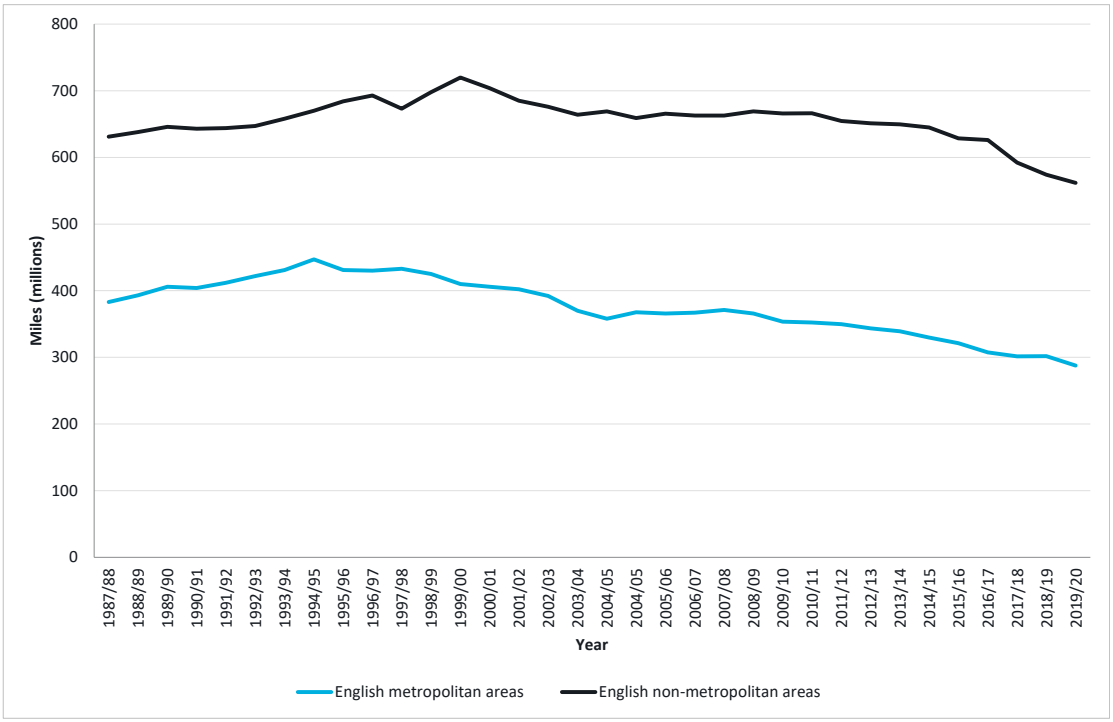


Data Source: Department for Transport Bus Statistics Table BUS0101

2.5 The reasons why bus passenger numbers have declined are many and deep-rooted, they include:

- Greater household disposal income, greater car ownership and driving licence holding have made car a more available option.
- Changing patterns of employment and economic activity makes car a more attractive option, or in many cases the only travel option.
- Lower demand has led to a reduced bus network in scale and geographic coverage. This is illustrated by looking at bus vehicle miles, as shown Figure 2.2. This provides a measure of the annual passenger service distance travelled by buses. Reduced bus networks are then less attractive, fuelling further decline in passenger numbers.
- Greater traffic congestion adds to costs as bus operators' principal assets (buses, drivers) are used less effectively. Congestion adds directly to longer bus journey times and makes services less punctual, which makes bus services less attractive and can result in operators adding time into their timetables to compensate. This, with other increased unit operating costs combined with lower bus demand have led to real-terms fares increases as operators seek to maintain their profit margins.

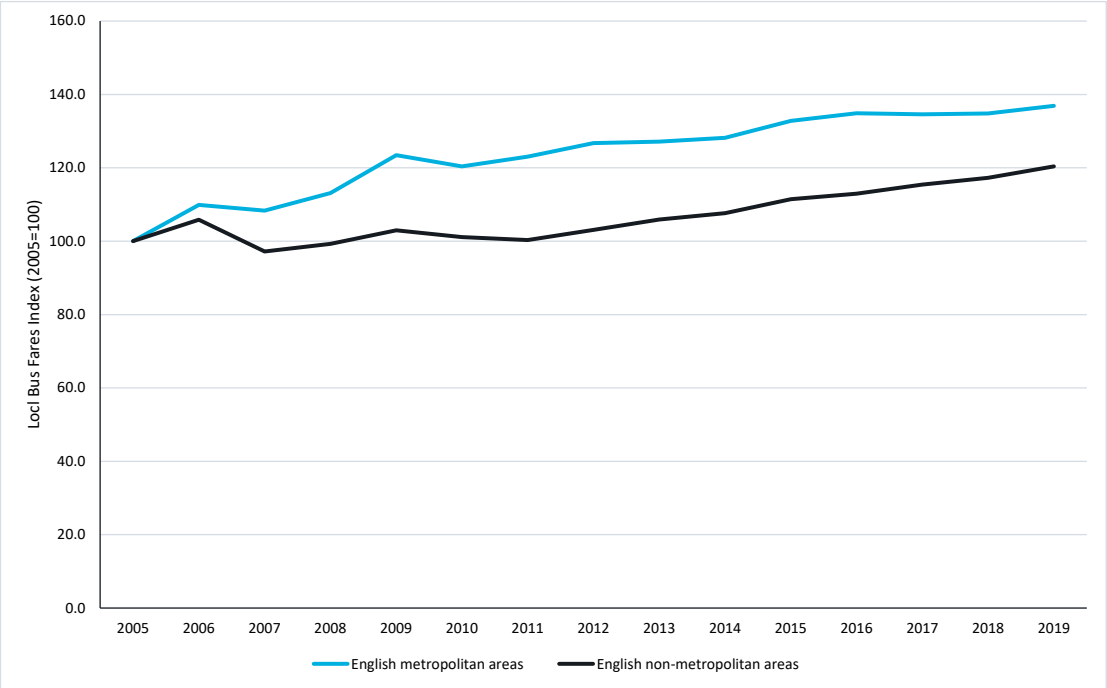
Figure 2.2: Bus Vehicle Miles – 1987 to the before the pandemic



Data Source: Department for Transport Bus Statistics Table BUS0205

2.6 Figure 2.3 shows how bus fares have increased in real terms over recent years. Reduced bus network coverage leads to bus services being less attractive or bus simply not being available at all. Together with higher fares, this further reduces passenger numbers leading to negative feedback, the so-called vicious circle of decline.

Figure 2.3: Bus Fares Index – 2005 to before the pandemic

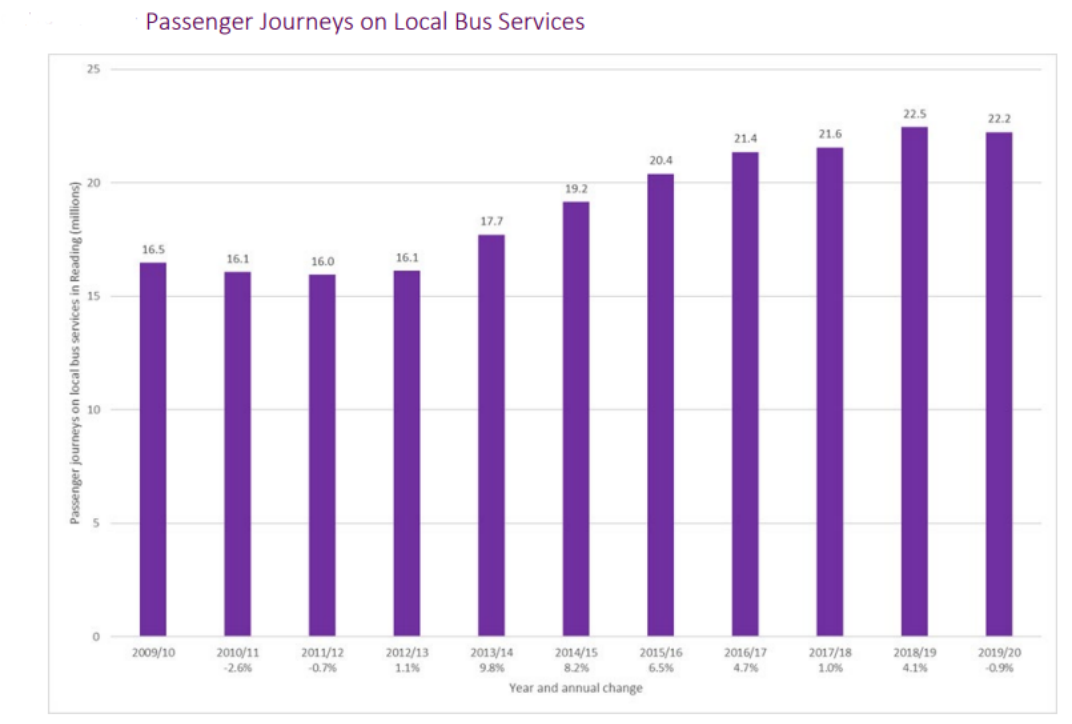


Data Source: Department for Transport Bus Statistics Table BUS0405b

2.7 Notwithstanding the long-term decline in bus patronage and the reduction in the coverage of the network, bus remains the country's most well utilised mode of public transport. Because of its economic importance, as well as the contribution that well-used public transport can make to environmental goals including carbon net-zero, local authorities across the country are pushing forward with plans and programmes aimed at increasing bus use. In addition, there is evidence of changing travel behaviours and changing attitudes to different modes, particularly amongst the young where car ownership and driving licence holding is now less

Case Study: Reading Bus Growth

Unlike many other areas in England, bus patronage had grown steadily in Reading in each of the seven years up to the pandemic, increasing by over 6 million trips from a total of 16.0 million in 2011/12. It was anticipated that this trend was set to continue, until the onset of the Covid pandemic affected all public transport services.



Reading Buses is owned and operated by the Council and operates 95% of bus services in the borough. Ownership of the bus services allows the Council to strategically direct funding and services, for example through pump priming bus services in growth corridors to support residential and commercial growth.

Reading buses is also able to flexibly promote bus use through ticketing initiatives, for example offering free travel by bus every Saturday in December, to promote Christmas shopping journeys by bus. This initiative will not only reduce vehicle journeys into the town centre, but may also encourage modal shift to bus for future journeys,

Source: Reading Borough Council (2021) Bus Service Improvement Plan 2021-26 and Reading Buses (reading-buses.co.uk)

prevalent than it has been and there is a greater willingness to use transport modes that are considered more sustainable.[5]

2.8 Pre-pandemic, towns and cities including Brighton, Reading and Southampton have each experienced growth in bus use.[6] What these places have in common is a buoyant economy, a dynamic local bus company management and an effective partnership between the local authorities and bus operators. Other factors include, but are not limited to, simple fares (e.g., flat fares), high quality and well-maintained fleets, a focus on customer service, limited town/city centre parking, limited urban rail network (and no light rail provision), congested local roads but bus priority measures, and a buoyant local economy.[7] However, the recent announcement that one of Southampton's principal operators is withdrawing all its services in the city from February 2023 is an illustration of the precarious nature of many bus services post pandemic, which is something that we consider in greater detail in the next chapter.[8]

Who Uses Bus

2.9 Bus is the most well-used form of public transport, accounting for 56% of all public transport journeys by those living in England outside London in 2018/19.[9] An average of 5.8 million passenger journeys per day were made by bus.

2.10 The reasons why people travel by bus are set out in Figure 2.4. Outside London, a fifth of all bus trips were for commuting and a quarter were trips to and from school or tertiary education. Large segments of the community have no other travel options and are reliant on bus to get to work or to get to school or college. A further quarter of trips were for shopping, demonstrating that bus use supports the High Street, particularly in larger towns and cities. A quarter of bus trips were for leisure purposes, highlighting bus's important role in giving people access to amenity and to enable people to meet with their friends and relatives.

[5] Chatterjee, K., Goodwin, P., Schwanen, T., Clark, B., Jain, J., Melia, S., Middleton, J., Plyushteva, A., Ricci, M., Santos, G. and Stokes, G. (2018). *Young People's Travel – What's Changed and Why? Review and Analysis. Report to Department for Transport.* UWE Bristol, UK.

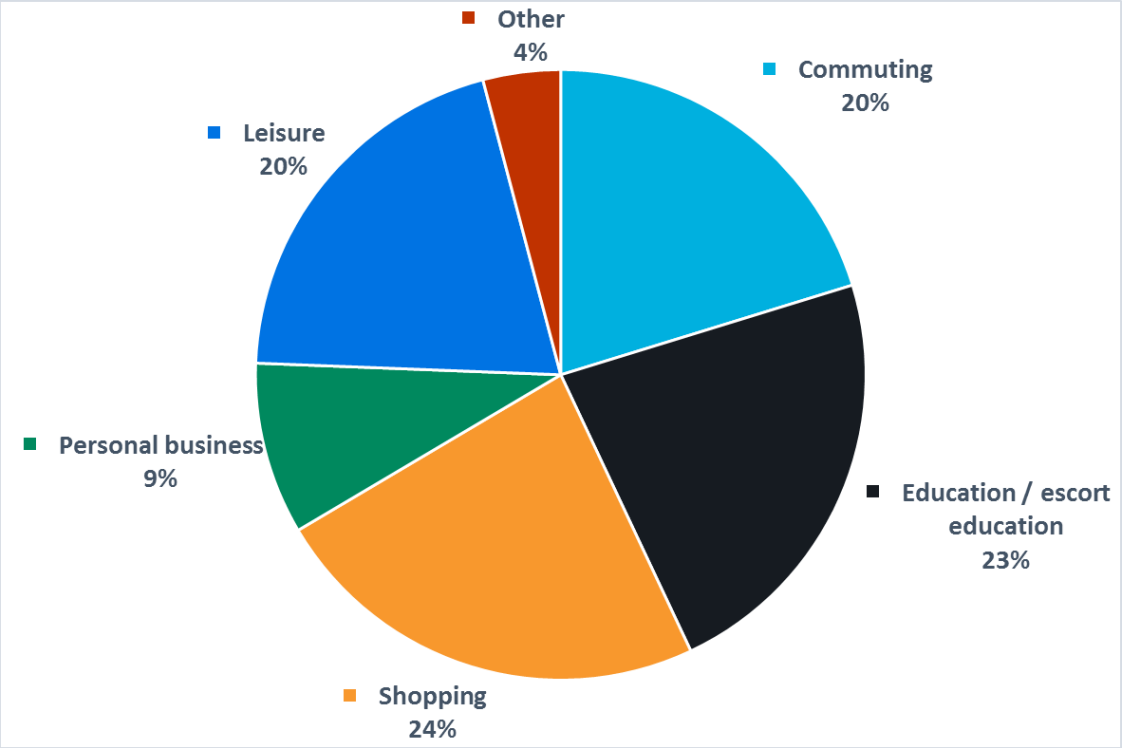
[6] Measured by bus passengers per head, see Figure 11, *What's Driving Bus Patronage Change?,* Urban Transport Group

[7] Urban Transport Group (2019) *What's Driving Bus Patronage Change?*

[8] ITV.com **First Bus announces plans to withdraw all CityRed services in Southampton from February 2023** [Accessed: 20.12.22] Another operator has said that they will step in and provide alternative services.

[9] DfT (2019) *Annual Bus Statistics: England 2018/19*

Figure 2.4: Why people travel by bus (outside London)



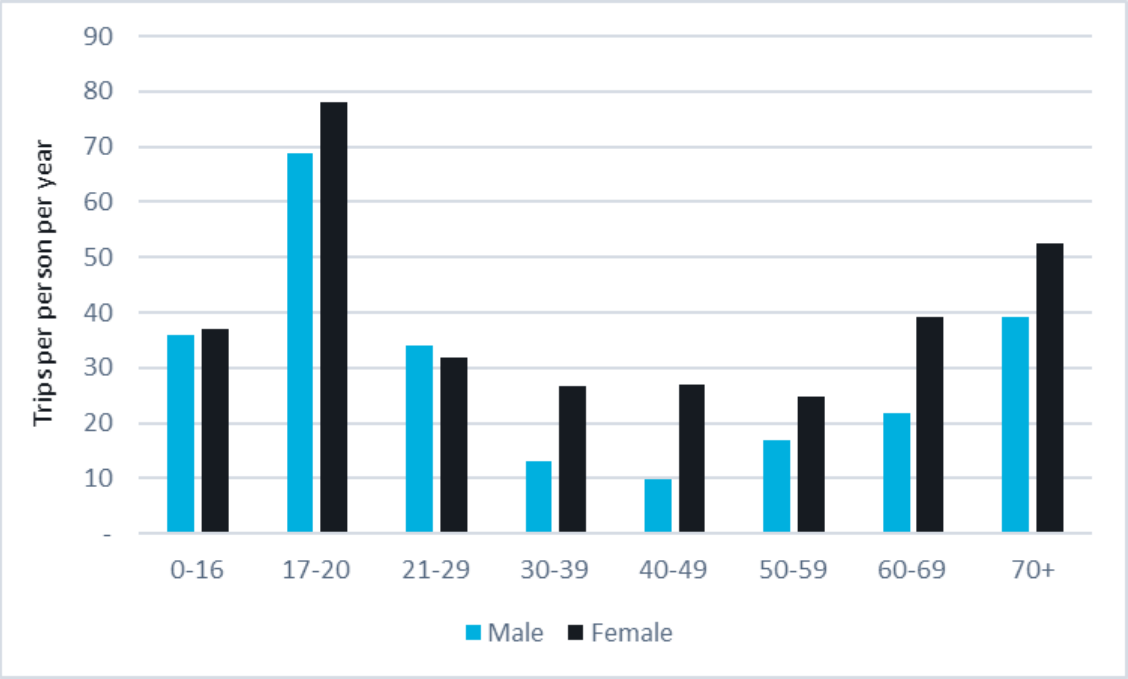
Data Source: National Travel Survey Table NTS0409

2.11 The largest users of bus are the youngest and oldest in society. Figure 2.5 shows the propensity to use bus by men and women in different age groups. On average, those under 30 and over 60 were more frequent bus users than those between 30 and 60. In England outside London, 28% of all bus journeys were made by people who were either elderly or disabled.[10] Women use bus more than men, irrespective of age. Outside London, 59% of bus trips were made by women and 41% by men.[11]

[10] DfT (2019) *Annual Bus Statistics: England 2018/19*

[11] Steer calculations using NTS (NTS 0601) and ONS mid-year population estimates. This approach produces an estimate of bus use that is less than that in the DfT's annual Bus Statistics data set but is considered adequate to give an indication of the composition of the bus market.

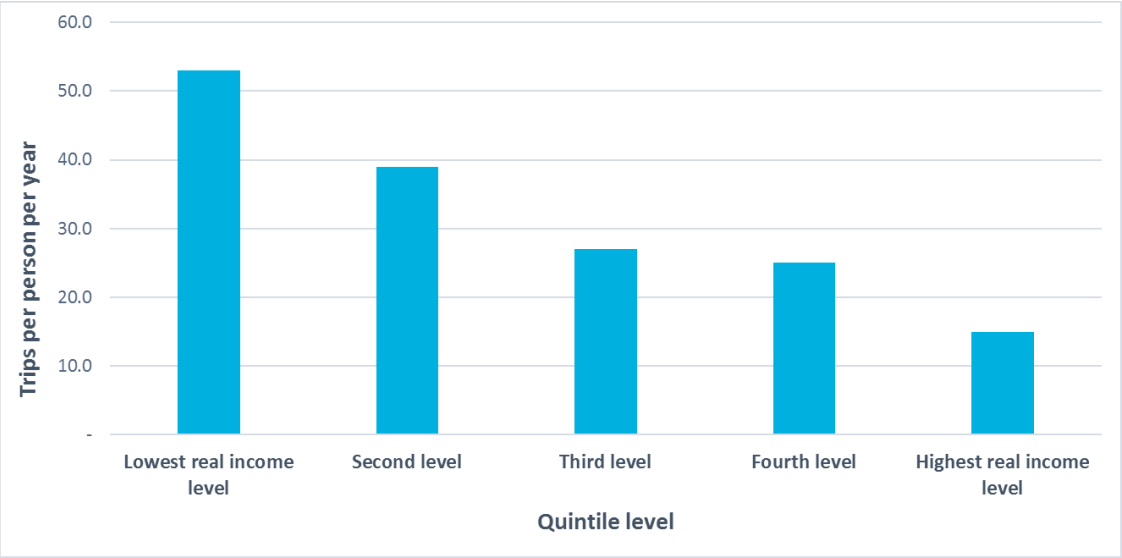
Figure 2.5: Propensity to use bus (by age)



Data Source: National Travel Survey Table NTS0601

2.12 Figure 2.6 shows bus use by income quintile. Those in the lowest income quintile make the highest number of bus trips per person, while those in the highest income quintile make the lowest number. People who depend more on bus to travel for work tend to be lower paid, live in more deprived areas and are more likely to turn down jobs because of transport issues than those on higher incomes, who tend to use cars and trains more often.[12]

Figure 2.6: Bus trips by income quintile



[12] NatCen Social Research, *Transport and inequality: An evidence review for the Department for Transport,* July 2019.

Data Source: National Travel Survey Table NTS0705

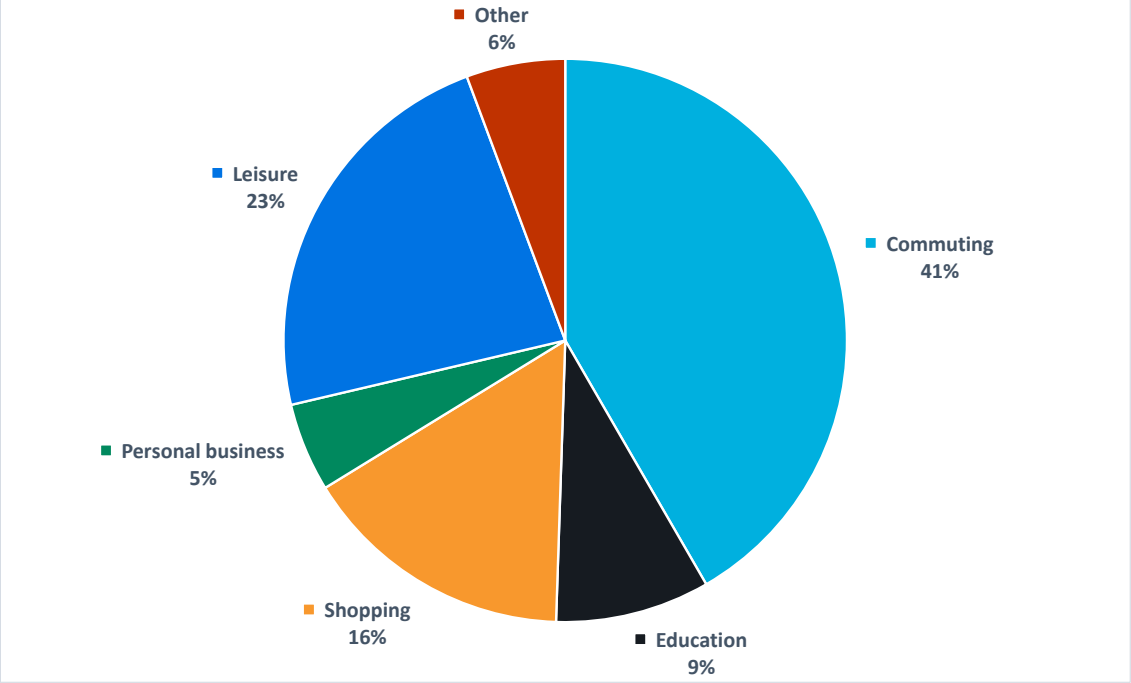
Trends for Light Rail

2.13 In England outside London, in the 12 months to 31st March 2019, 124.4 million journeys were made by light rail.[13] Use of light rail has been increasing over the last twenty years reflecting the expansion of these networks which makes them a viable travel option for a greater number of people, as well as the growth in employment and economic activity in the city centres that they typically serve.

Who Uses Light Rail

2.14 The reasons why people travel by light rail are shown in Figure 2.7. Together, commuting to work and journeys to education account for around 50% of all light rail journeys. Compared with bus, pre-pandemic commuting trips made up a larger share of all trips whereas journeys to shopping make up a smaller share. This reflects that light rail networks are focussed on the centres of the conurbations that they serve, which are the largest centres of employment in their areas.

Figure 2.7: Why people travel by light rail (outside London)



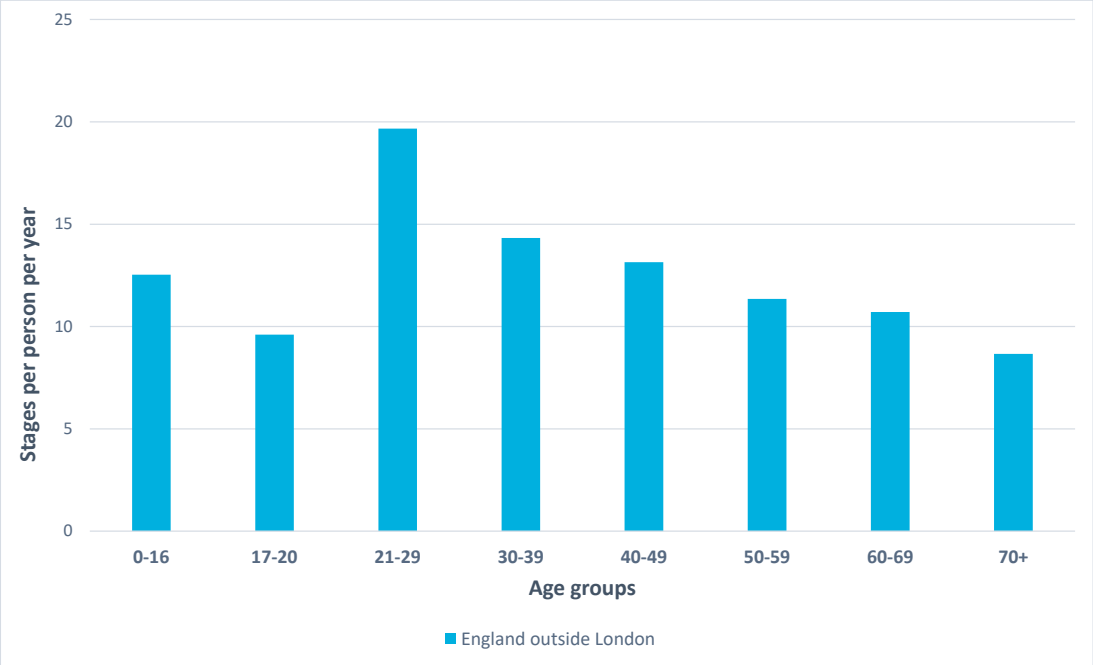
Data Source: DfT Light Rail and Tram Statistics Table LRT0401a

2.15 The younger in society have a greater propensity to use light rail than those who are older. Those in the 20 to 40 age bracket having the greatest propensity to use light rail (Figure 2.8). Also, compared with bus light rail tends to be used more by the better off (Figure 2.9). Both these facts reflect the city centre markets that light rail serves well – city centres have the highest concentration of better paid knowledge intensive jobs, as well as high concentrations

[13] LRT0101. A further 150.5 million journeys were made on Docklands Light Rail and London Tramlink and 7.5 million on Edinburgh Trams.

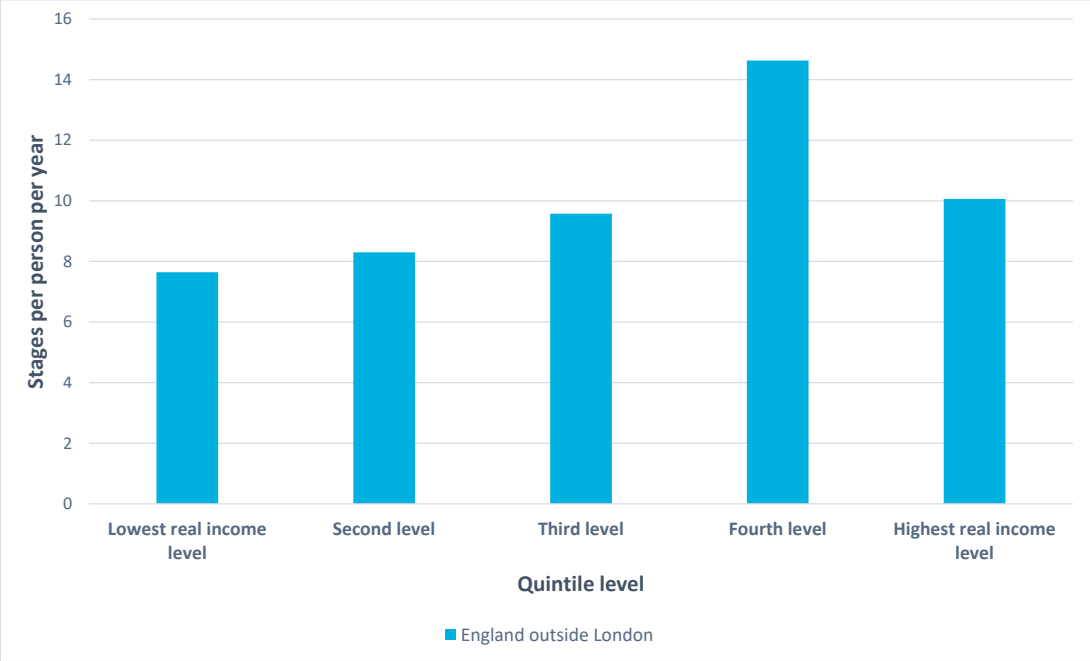
of jobs filled by the younger segments of the population (e.g., retail, food and beverage). Men make 54% of light rail journeys and women 46%.[14]

Figure 2.8: Propensity to use light rail (by age)



Data Source: DfT Light Rail and Tram Statistics Table LRT 0401b

Figure 2.9: Light rail trips by income quintile



Data Source: DfT Light Rail and Tram Statistics Table LRT 0401f

[14] DfT Light Rail and Tram Statistics Table LRT0401c

Benefits of Local Public Transport

2.16 A body of research undertaken in recent years has established the importance of local public transport in general and bus in particular. This has included work commissioned by Greener Journeys[15] and by the Urban Transport Group (and its predecessor the Passenger Transport Executive Group).[16] What this work unequivocally shows is that as well as bringing immediate economic benefits to its users, the provision of local public transport has much wider positive economic, social and environmental benefits. Figure 2.10 shows that local public transport brings to health, the environment, the economy and the community.

Bus Contributions to Wider Policy Agenda

2.17 As shown Figure 2.11, local public transport provides benefits across a range of sectors. The figure is the National Audit Office's assessment of how bus services, and wider local transport can contribute to the policy objectives of two thirds of government departments. While based on pre-pandemic analysis, the figure shows the wide-ranging contribution that local public transport makes to meeting Government's objectives. Referring back the 2014 PTEG report *Making the Connections: The Cross-Sector Benefits of Supporting Bus Services* shows that while the detail of Government's objectives can evolve over time, there is a consistency of view that local public transport supports a wide range of policies spanning most Government departments.

[15] For example: Mackie P, Laird J and Johnson D (2012) *Buses and Economic Growth*, ITS Leeds

Mackie P, Laird J and Shires J (2014) *Buses and the Economy II*, ITS Leeds (plus six supporting technical reports)

KPMG (2016) *A Study of the Value of Local Bus services to Society*

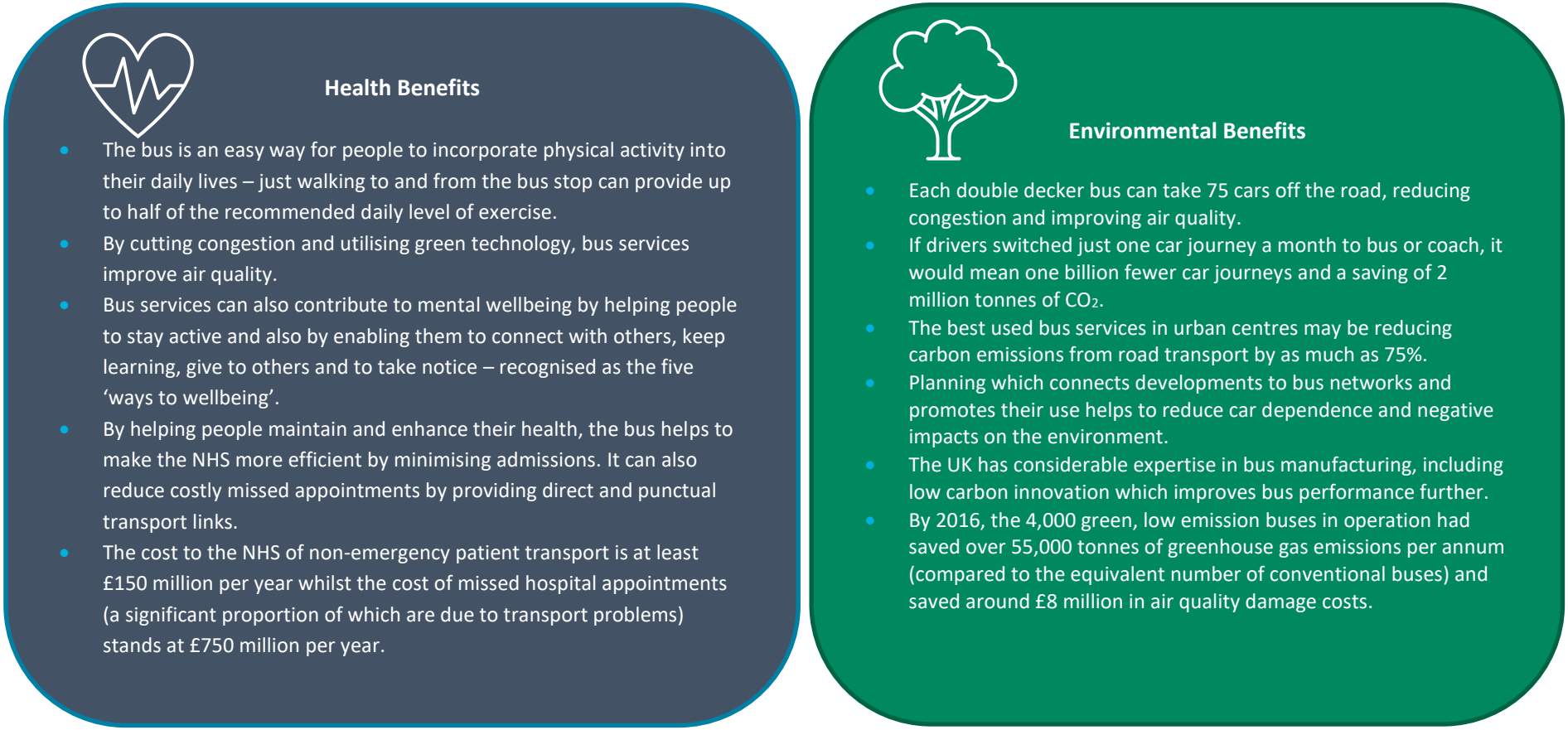
KPMG (2017) *The 'True Value' of Local Bus Services*

[16] For example:

PTEG (2013) *The Case for The Urban Bus: The Economic and Social Value of Bus Networks in the Metropolitan Areas*

PTEG (2014) *Making the Connections: The Cross-Sector Benefits of Supporting Bus Services*

Figure 2.10: Benefits of Local Public Transport[17]



[17] Developed from PTEG (2013) *A Better Deal for the Bus from the Spending Review* Data sources are set out in the PTEG report and UTG (2019) *The Cross-Sector Benefits of Backing the Bus*. Monetary values have been updated to 2022 values.

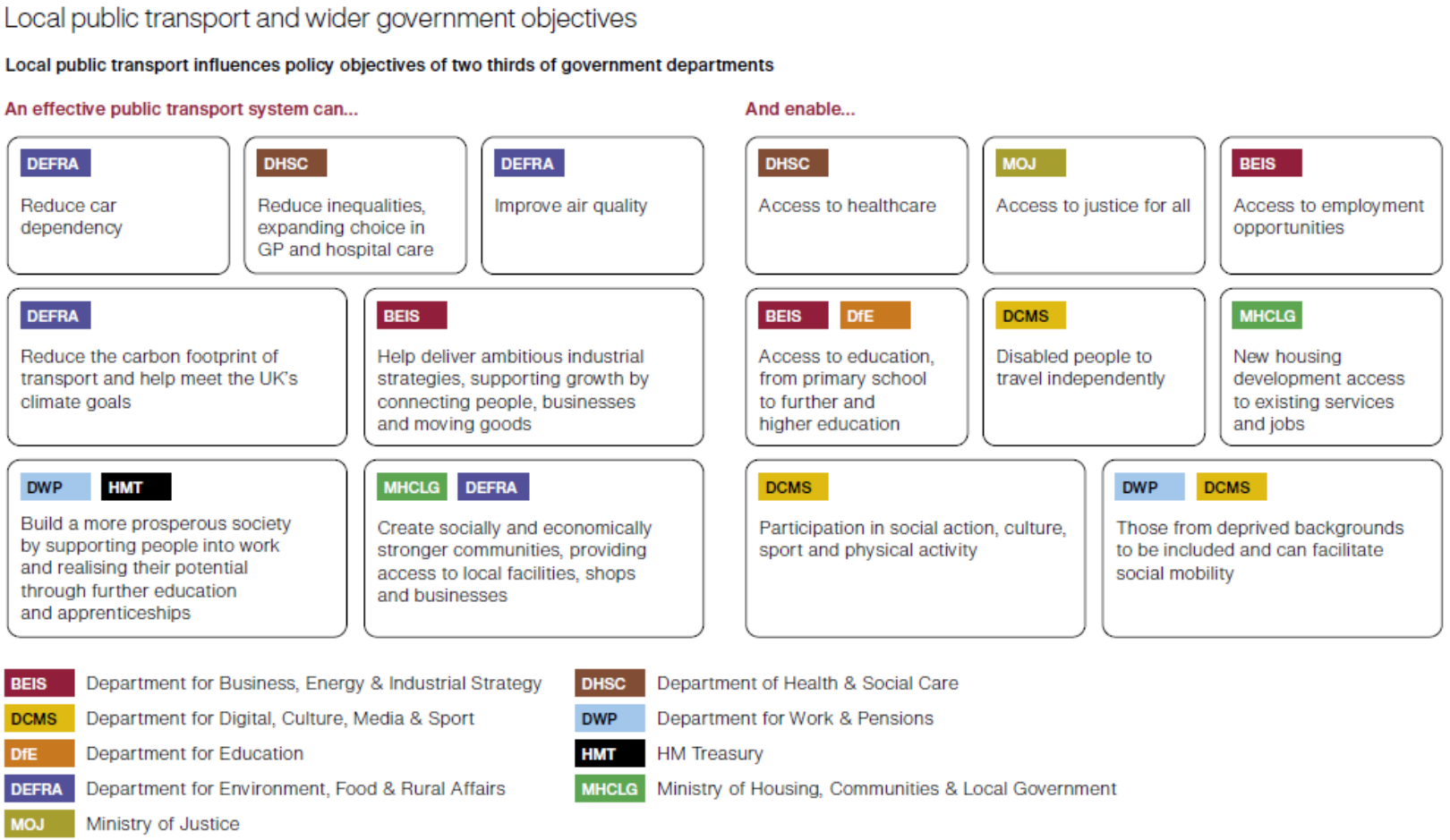
Social and Community Benefits

- Bus contributes to a fairer and more equal society by ensuring that, regardless of their background, people can access the opportunities they need to achieve social mobility. The bus connects people of all ages to education helping to improve their long-term prospects. Some 400,000 workers are in better, more productive jobs as a direct result of the bus.
- Bus is a unique and effective tool of social policy – it is automatically targeted at those groups who are most in need of support without resort to complicated means-testing arrangements. This is because the groups most in need are the same as those most likely to rely on the bus, including young people, people on low incomes, older people, disabled people and jobseekers.
- Nearly half of households on the lowest incomes do not have access to a car. Bus use rises as income falls.
- 64% of jobseekers either have no access to a vehicle or cannot drive.
- Young people are amongst the biggest users of bus services – outside London 17-20-year-olds make over twice as many bus trips as the average person in Great Britain.
- Nearly 30% of over 60s use the bus at least once a week.
- 60% of disabled people have no car in the household.

Economic Benefits

- More people commute to work by bus than all other forms of public transport combined, generating £91.7 billion in economic output every year.
- A high proportion of bus trips are linked to economically productive activities – for example, 42% of bus trips are for work or education purposes, whereas the equivalent figure for car trips is 24%.
- More people access the high street by bus than any other mode, and people use the bus to make shopping and leisure trips to a value of £34 billion.
- In 2019/20 the bus industry had a revenue in excess of £5.2 billion, much of which is ploughed back into regional economies.
- 400,000 workers are in better, more productive jobs as a direct result of the bus, and the additional economic output they produce is £500 million per annum.
- In Metropolitan areas, bus networks are estimated to generate over £2.5bn in economic benefits against public funding of £0.5bn.
- The UK bus industry itself is a major employer and enjoys a growing international reputation for high quality bus manufacturing, contributing to UK exports.

Figure 2.11: Local Public Transport and Wider Government Objectives



Source: NAO (2020) *Improving local bus services in England outside London* HC 577

Summary

2.18 Buses are the most utilised form of transport and can deliver substantial economic, environmental, health, and social and community benefits. Bus is most well used by the young and the elderly, women and the poorest in society. For many, bus is the only transport option available to access work and education. Provision and use of bus services supports the attainment of a wide range of departmental Government objectives.

2.19 This said, for many years bus patronage has been declining. Socio-economic changes and the increasing suburbanisation of economic activity along with the growth of edge-of-town/out-of-town employment and retail have all contributed to this decline, as has the negative impact of congestion on bus journey times and punctuality which makes bus less attractive as well as pushes up operating costs. Nonetheless, there are areas where pre-pandemic bus ridership was growing. Such places are characterised by good quality bus service, including good marketing, a high-quality fleet and a bus offer well-matched to the needs of the local market, targeted bus priorities that improve bus journey times and help make services more punctual, car travel being unattractive due to congestion and/or expensive or limited city centre parking, and a strong culture of bus use.

2.20 Patronage for light rail has grown as networks have been expanded such that light rail is an important part of the local public transport offer in the cities that it serves.

3 Local Public Transport and the Pandemic

Overview

3.1 Covid led to unprecedented impacts on the way we travel. The decision in March 2020 to 'lockdown' society and, as part of that, advise people not to travel by public transport, led to a precipitous decline in use of buses, light rail and the national rail network. Demand dropped to a small fraction of its pre-Covid levels. Government stepped in and provided financial support to ensure that initially bus, light rail and rail networks provided the connectivity needed for key workers to get to their jobs and then to build up and then maintain services close to pre-pandemic levels. As restrictions were relaxed, this support helped people get back towards a more normal life.

Public Transport Use During the Pandemic

Bus

3.2 Bus passenger demand plummeted with the implementation of lockdown between 16th March (when then Health Secretary Matt Hancock told the House of Commons that all unnecessary social contact should cease) and 23rd March 2020 (when the then Prime Minister Boris Johnson announced that people must stay at home and certain businesses must close).

3.3 Non-London bus patronage since the beginning of March 2020 to the end of 2022 is plotted in Figure 3.1 where red bands indicate lockdown, yellow bands indicate times of restrictions and green bands indicate periods of the least restriction.

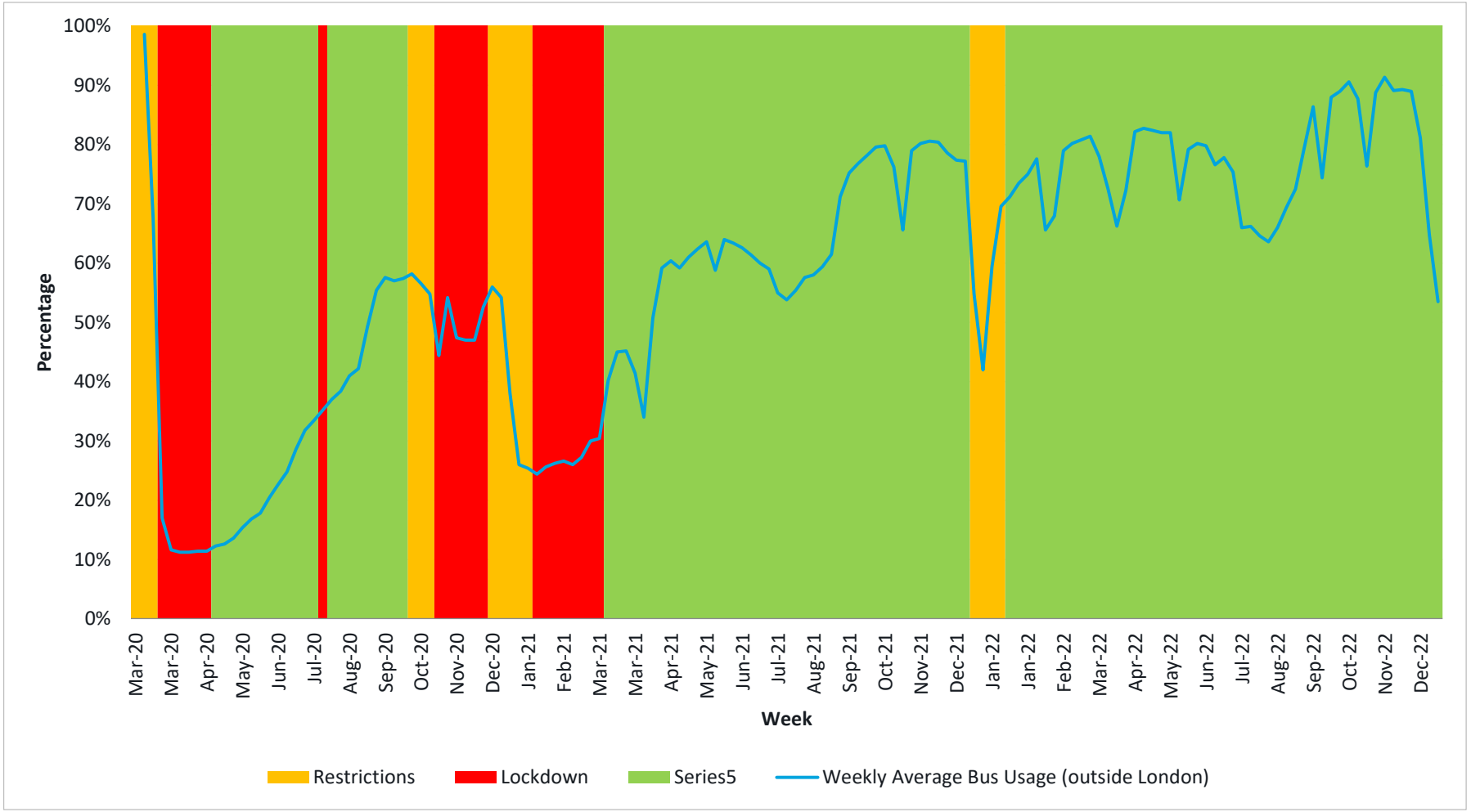
3.4 Allowing for seasonal effects (the sharp dips are associated with holiday periods), demand rose steadily during periods of fewer restrictions (green on the graph) but at no time approached pre-pandemic levels. In the last quarter of 2022, bus patronage outside London was at around 85% of its pre-pandemic level.

Light Rail

3.5 Other than Blackpool Tram, which temporarily closed between the end of March and mid July 2020, Britain's light rail networks continued to operate throughout the pandemic.

3.6 In contrast to bus, there is no single data source than brings together the patronage trends across England's light rail networks. Broadly, light rail patronage followed similar trends to bus, but the focus of these networks on England's largest city centres, which as well as being retail centres are concentrations of the office-based jobs with a high propensity to be able to work from home, means that light rail has been more acutely affected by work from home guidance.

Figure 3.1: Non-London Bus Usage as a percentage of pre Covid levels (7 day moving average)



Data Source: Department for Transport COVID-19 Statistics. Use is measured against the equivalent day of the third week of January 2020, adjusted for bank holidays.

Pandemic Emergency Funding

Covid-19 Bus Services Support Grant

3.7 On 6th April 2020, DfT wrote to operators and local authorities to inform them that an additional temporary grant would be introduced; the Covid-19 Bus Services Support Grant (CBSSG). This was to apply for up to three months from 17th March and the fund was capped at £166.8m.

3.8 On the 20th May 2020, a further £254m tranche of funding for bus operators was announced, known as "CBSSG Restart", backdated to apply from 12th May. A number of changes were made including operators being allowed to include additional one-off costs (e.g., PPE provision) as part of their cost base.

3.9 On the 8th August 2020, a £218.4m tranche of funding was announced to cover a further eight weeks. For periods after that, up until end of August 2021, up to £27.3m per week was allocated on a rolling basis.[18] Conditions were largely unchanged, other than service levels were expected to be restored to 100% of pre Covid levels in September 2020. This requirement was kept through the winter/spring 2021 lockdown largely to maintain schools and essential worker provision.

3.10 Operators were required to consult with and undertake ongoing reviews (at least monthly) with their local transport authorities (LTAs) on the proposed service levels. If required, the operator had to be able to demonstrate to the Department that these consultations took place.

3.11 Operators were not permitted to achieve an operating margin through this funding and this is assessed through an open book reconciliation exercise.

3.12 CBSSG grants for tendered services have been paid directly to the local transport authority. For gross cost contracts, this has sought to compensate the authority for loss of revenue. For net cost contracts, the grant has usually been passed on to operators.[19]

Bus Recovery Grant (BRG)

3.13 From 1st September 2021, CBSSG was replaced by the Bus Recovery Grant (BRG). Announced on 6th July 2021, this provided a further £226.5m.[20] BRG was designed to bridge the gap between revenue at the date of claim and the equivalent revenue two years previously, known as 'lost farebox revenue'. It is paid on the basis of a four-weekly submission by operators in which they declared pre-Covid and current farebox revenue and miles operated by route.

3.14 The BRG was extended on 19th August 2022 to provide an additional £130m.[21] The extension is expected to cover an additional 6 months of funding from October 2022 to March 2023.

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[18] DfT News Story 8 August 2020: **Government extends coronavirus support for buses and trams, total funding tops £700 million**

[19] For example, **this letter** published by Suffolk shows additional payments to operators from the allocated CBSSG fund

[20] Grant Shapps (6.7.2021) *Supporting Vital Bus Services: Recovery Funding* **Written Statement to Parliament**

[21] UKGOV (19.08.2022) **£130 million to protect bus services across the country - GOV.UK (www.gov.uk)**

3.15 The level of financial support to local public transport is shown in Table 3.1, which by way of comparison also includes the support provided to the national rail network.

Table 3.1: Total Financial Support to Public Transport

Title	Description	June 2022 estimated of lifetime cost (£m)	Amount reported as spent at June 2022 (£m)	Passenger Numbers April 2020 to June 2022 (million)	Support per passenger (£ per pax)
Rail emergency measures	Funding to ensure that services continue for essential journeys.	16,973	13,944	1,708	8.16
Services in London	A funding and financing package for Transport for London to safeguard services, based on a series of conditions.	4,376	4,176	4,229	0.99
Bus, tram and light rail services	Funding to protect and increase local bus, tram and light rail services.	2,125	1,941	2,607	0.74
Total		23,474	20,061	8,544	2.35

Sources: Columns 1-4: National Audit Office **Covid 19 Cost Tracker,** Column 5 ORR Table T1220 and T1221, DfT Bus Statistics BUS0103 and BUS106a, DfT Light Rail Statistics LRT0101, **London Datastore** plus consultant's estimates. Column 6 is Column 3 divided by Column 5. The estimate of life-time cost is the NAO's estimate of the past spend plus the forward commitment.

3.16 A number of operators in Combined Authorities have announced service cuts ahead of the March 2023 deadline, citing the end of Government funding, increasing operating costs and lower passenger demand.[22]

£2 Single Adult Fare

3.17 In September 2022 the Government announced the provision of up to £60 million from January 2023 up to March 2023 (the Bus Fares Cap Grant), to help bus operators to cap single adult fares at £2 per journey. The move is aimed at helping passengers with travel costs over the winter months while they are facing pressures from the rising cost of living.

3.18 The rationale for this policy is that bus fares vary across different parts of the country and between bus operators. According to the Department for Transport the average single fare for a 3-mile journey is estimated at over £2.80 and fares can reach £6 for a single journey in some rural areas with examples greater than this.[23] The DfT's rational is that the reduced fares will

[22] Examples include:

TfWM (2022) **Bus Service Changes from 1 January 2023**

Warning of huge public bill to fight sweeping bus cuts looming over region A third of South Yorkshire's bus network is scheduled to disappear in autumn, 2 August 2022

[23] DfT (2022) **£2 bus fare cap across England to save passengers money**

reduce travel costs over the winter months while passengers are facing pressures from the rising cost of living, as well as supporting the on-going recovery of bus patronage.

3.19 In anticipation of this scheme, a number of Combined Authorities have introduced the £2 fare early. Greater Manchester Combined Authority capped fares at £2 for adults and £1 for children for at least a year.[24] Liverpool City Region, West Yorkshire Combined Authority and West of England Combined Authority are also offering fare caps. The West Yorkshire scheme caps single fares within West Yorkshire at £2 and day tickets at £4.50.

3.20 There is evidence that in line with the proposed £2 cap, some bus operators have now raised fares which were previously less than £2, ostensibly to create a simple flat fare structure for passengers across all services.[25] In reality, a bus return fare which was previously £2.60 could now become £4, an additional outgoing of £7 per week or £28 per month. Such a response from bus operators was foreseeable and as with other policy-driven changes that affect the cost of travel, there will be winners and losers. What is important is that when policy changes are made who the winners and losers are is understood and if possible, action is taken to mitigate the impact on the losers. It is important to have this in mind when thinking about options for reforming the financial support that is provided to local public transport, as we do in Chapter 7.

3.21 It is interesting to compare the approach of capping single bus fares (UK) with the temporary introduction of a low priced monthly local public transport ticket (Germany).[26] The German initiative offered monthly public transport tickets for just €9 with the goal of encouraging the use of public transport as well as ease cost of living impacts of inflation and high energy costs. While boosting public transport patronage, survey research says that just 10 per cent of the additional journeys would otherwise have been made by car. The vast majority of additional passengers were existing public transport users making more journeys. This said, improvements in air quality and reduced carbon emissions were also reported.[27]

Public Transport Use Post-Pandemic

3.22 As noted in the previous Chapter, bus patronage has experienced a long-term decline. In England's metropolitan areas between 2009/10 and 2018/19 bus patronage fell at an average of 1.8% a year, as shown in Figure 3.2. In a no pandemic counterfactual world, if this trend had continued it is reasonable to have expected a further decline in bus patronage of around 4% over the two years of the pandemic (2019/20 and 2021/22). While it is possible that had the pandemic not occurred policy action at a national and local action could have slowed, halted or even reversed this decline, the long-term trend suggests that in the absence of the pandemic, metropolitan bus patronage would be less in 2022 than it was in 2019.

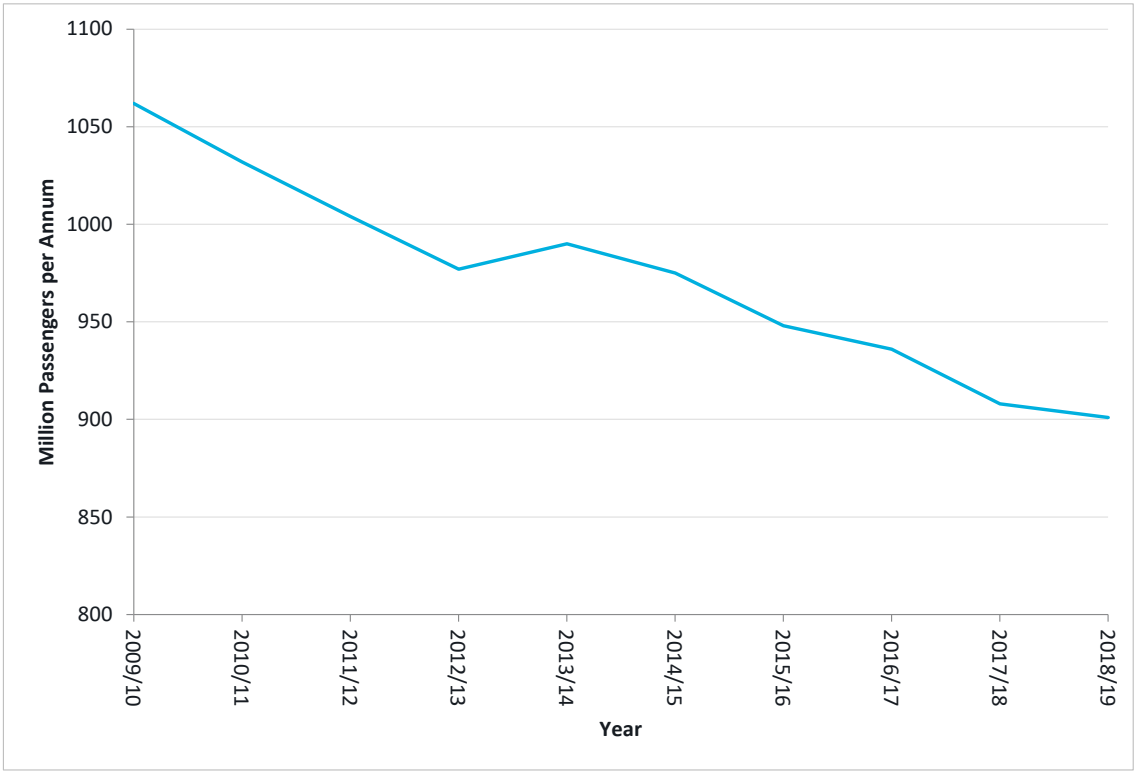
[24] BBC (2022) *Capped £2 bus fares introduced early in Greater Manchester*, Available **here**

[25] Telegraph and Argus (2022) *'Hold your nerve' - Mayor has strong words for bus companies amid more service cuts'.* Available **here,** [Accessed: 25.10.22]

[26] VDV (2022) **Bilanz eines Erfolgsmodells: Rund 52 Millionen verkaufte 9-Euro-Tickets**

[27] World Economic Forum (2022) **Germany's €9 transit ticket cuts 1.8 million tonnes of CO2**

Figure 3.2: Metropolitan Area Bus Usage 2009/10 to 2018/19



Data Source: DfT Bus Statistics BUS0103

3.23 Nonetheless, it is clear that bus patronage is still somewhat less than a no pandemic counterfactual trend would suggest. There are many reasons why bus demand has not fully recovered to a no-Covid counterfactual level and these include:

- The pandemic has led to changes to travel habits as people have adjusted their day-to-day activities so that they no longer need to travel by bus. Some of these changes will persist.
- On-going worries about Covid and a desire to avoid being in crowded spaces means that some pre-pandemic bus users will remain reluctant to travel by bus. Such effects could be particularly pronounced in winter when other respiratory infections (e.g., colds and 'flu) that have Covid-like symptoms are more prevalent and in the absence of widely available testing, people adopt a precautionary stance and stay at home. Some segments may be more affected than others, noting that pre-pandemic bus was well-used by the older demographic.
- There will be long-lasting impacts on town and city centre leisure and retail activity. For instance, the pandemic saw the failure of a number of high street chains and town and city centres experienced shop closures and increases in vacancy rates. The impacts of inflation and the cost-of-living crisis will further compound these effects. It will take some time to return to pre-Covid activity levels, if these levels are reached at all. Pre-pandemic travel to town and city centres were important bus markets.
- As discussed in Chapter 2, those with the highest propensity to use bus are the least well-off in society. The cost-of-living crisis is disproportionately affecting this group. Increases in the cost-of-living will lead to the poorest foregoing discretionary expenditure that might have involved bus travel (e.g., go to the cinema). Also, as it is the poorest who find bus fares most expensive and squeezed household budget will further affect discretionary travel even if the activity would have involved spending no money (e.g., visit a relative).

- However, bus users are more likely to work in jobs where working from home for some or all of the time is not an option which means that overall commuting by bus has been less affected by the greater uptake of home working.

3.24 There is evidence from various sources that recovery in concessionary travel is not as fast as the recovery in demand overall. [28] This is likely to be a facet of changed patterns of activity, as well as a reluctance to use public transport.

3.25 Transport for London has developed a helpful framework to illustrate these effects: Quantity, Frequency and Intensity of Usage (QFI).[29] In this:

- Quantity (Q) is the number of individuals who make journeys by public transport
- Frequency (F) is the number of days per week that these people travel
- Intensity (I) is the number of trips made each day that someone travels

3.26 Transport for London's analysis is that the number of individuals (Q) making bus trips has fallen to around 90% of the pre-pandemic number. This means that for every ten people who used London's buses pre-pandemic, now only nine do. These people also travel on fewer days (F) and this figure is also around 90%, which means that for every ten pre-pandemic days that the average person travelled by bus, post pandemic travel only happens on nine days. Finally, TfL has found that intensity (I) has not dropped and still is around 100% of its pre-pandemic level. This means that once people do chose to travel, they make as many bus trips per day as they did pre-pandemic.

3.27 In London and elsewhere, bus can be used for the entirety of a journey or it can be part of a multi-modal journey, for example involving bus and rail and in the specific case of London, bus and Underground. A further finding from TfL is that bus-only journeys have recovered at a faster rate than journeys that involve bus and national rail, or bus and Underground. Bus-only journeys are at around 90% of their pre-pandemic levels, while bus/national rail and bus/Underground are at around 80% of their pre-pandemic levels. This is put down to the socio-economic characteristics of those who make interchange journeys, with the view that these people are more likely to be commuting longer distance to office jobs central London (Zone 1) and such people have a much greater propensity to be able to work from home.

3.28 The way buses are provided in London differs from the rest of England, as does the Capital's integrated ticketing system and relatively low fares for bus-only journeys. There are also socio-economic differences. Nonetheless, TfL's analysis of the London experience helps corroborate the reasons put forward for why bus patronage outside London has not yet returned to pre-pandemic levels. The TfL analysis also supports the proposition that the rate of recovery has slowed and demand is close to a "new normal" which is 5 to 6 percentage points lower than a counterfactual extrapolation of pre-pandemic trends.

Operator Response

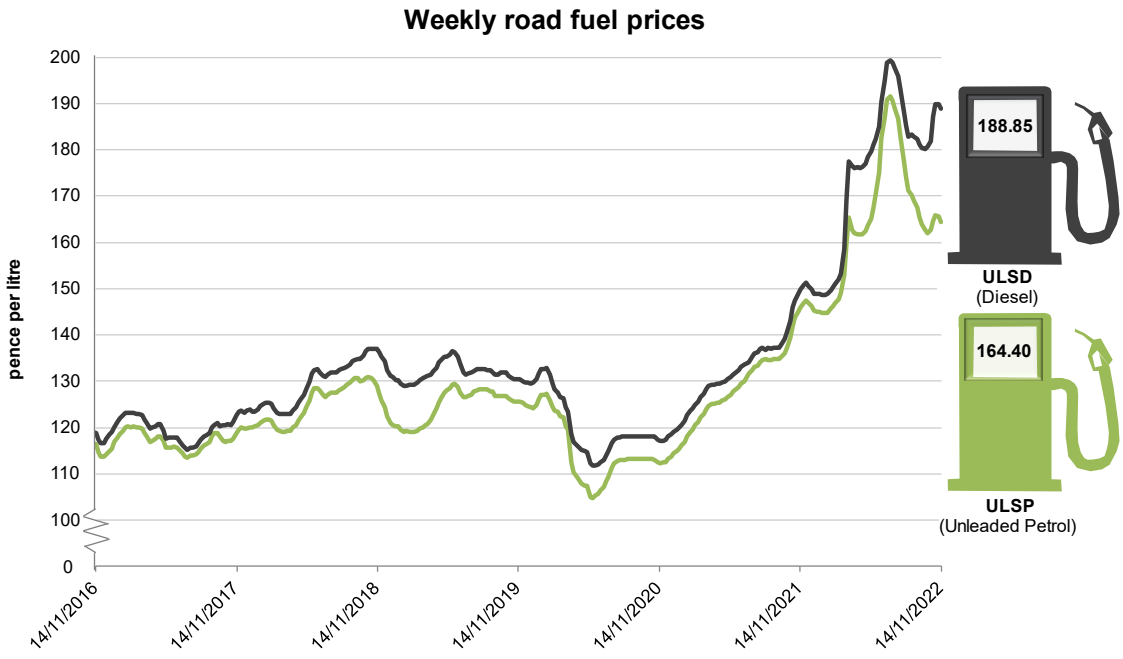
3.29 Throughout the pandemic, operators ran close to pre-pandemic services. However, operators are facing increased costs, such as increased cleaning regimes and higher fuel costs. Figure 3.3 shows the commercial pump prices for ultra-low sulphur diesel and petrol since 2016. Bus

[28] Including the "10 percent club" of bus company manager quoted in **Route One**

[29] Clark W. (2022) *Demand Insight*, presentation to Transport Statistics User Group (TSUG), 27th October 2022

operators pay less than this as they claim back the VAT, get Bus Services Operator Grant (see Chapter 6) to offset in part the excise duty element and they buy their fuel on the wholesale market, often with hedging arrangements – nevertheless fuel costs to operators have risen substantially since the end of 2020.

Figure 3.3: Fuel Prices (including VAT and Excise Duty)



Source: BEIS (2022) **Weekly Road fuel prices** [Accessed 18.11.22]

3.30 There is upward pressure on driver wages, both due to general wage inflation and in particular due to the shortage of PCV (bus) and HGV (lorry) drivers (noting a degree in interchangeability between the two sectors).[30] A shortage of drivers raises the possibility of an upward wage spiral as drivers change jobs to get better remuneration, which in turn creates vacancies that can only be filled with higher pay rates. On top of this, high staff turnover can lead to unreliability should operators have sufficient drivers to operate their services. [31] A shortage of bus drivers also limits the services that can be operated, both in terms of the advertised timetable but also affecting the reliability of advertised services, with a negative impact of short-term cancellations which in turn makes bus less attractive to its users.

3.31 If emergency financial support ceases at the end of March 2023 as intended, operators will be in the position that their operating costs will be around pre-pandemic levels, if not greater, but revenue will be lower than pre-pandemic levels. While it may be reasonable to assume that bus operator revenue recovery would be a little higher than the 85% recovery of passenger

[30] BBC (2022) **Bus driver shortage: Almost 1 in 10 positions vacant 4 November 2022** [Accessed 18.11.22]

[31] For example, Stagecoach Hull has just agreed a 21% increase two year pay deal. See **here** [Accessed 18.11.22]

numbers,[32] there will still be a significant shortfall in the revenue needed to cover operating costs and to allow operators to make the reasonable profit that will be needed if they are to fund further investment.

3.32 A position where demand and revenues are less than pre-pandemic levels, but operating costs are at or above pre-pandemic levels is not sustainable for any operator. With no prospect of a material change in their operating position, bus operators will respond by reducing operating costs and seeking to increase passenger yield (fare per passenger).

3.33 Operators have three potential responses:

- Reduce services – this could be reductions in frequency, services starting later in the morning or finishing earlier in the evenings, reductions to Sunday services, shortening routes or curtailing services altogether. Bus operators will only get meaningful cost savings by reducing their fleet size (Peak Vehicle Requirement) and the number of staff rostered to operate their services.[33]
- Increase fares – there is already evidence that as early as January 2022 a number of operators increased fares and this has continued throughout 2022.[34] This suggests that the impacts of the DfT's national £2 fare initiative will be short-lived without further support beyond March 2023.
- Both reduce services and increase fares.

3.34 Many operators are experiencing driver shortages, so service reductions will bring immediate cost savings to them without needing to consider redundancy payments.

3.35 Operators may take other action to reduce costs such as delaying fleet renewals and cutting overheads, but these actions need time to take effect.

3.36 Past experience is that bus operators have responded to falling demand by reducing service levels *and* increasing fares.[35] We consider this to be an extremely likely response to the planned Government cessation of Covid-related bus funding at the end of March 2023.

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[32] For instance, concessionary journeys have lower income per trip. The view is that concessionary travel has not recovered to same degree as non-concessionary travel. In this case the yield per passenger will increase.

[33] Wakefield Examiner, 27th January 2022 **West Yorkshire Bus Cuts: All the Routes being Changed by Arriva**

[34] Examples include:

Blackpool Gazette, 7th January 2022 **Blackpool Transport announces price hikes of up to £2 for all bus and tram fares;**

KentOnline 18th June 2022, **Arriva puts bus fares up by 6% across Kent and Medway**

BBC 17th August 2022, Reading bus fares to rise **Further cuts to Reading bus services announced as fares increase**

Blackpool Transport fares rise, 25th September 2022 **Your New Fares and Introducing Daily Capping**

Northern Chronicle, 19th October 2022 **'Unwelcome' fare hike for bus passengers as major operator Go North East announces new ticket prices**

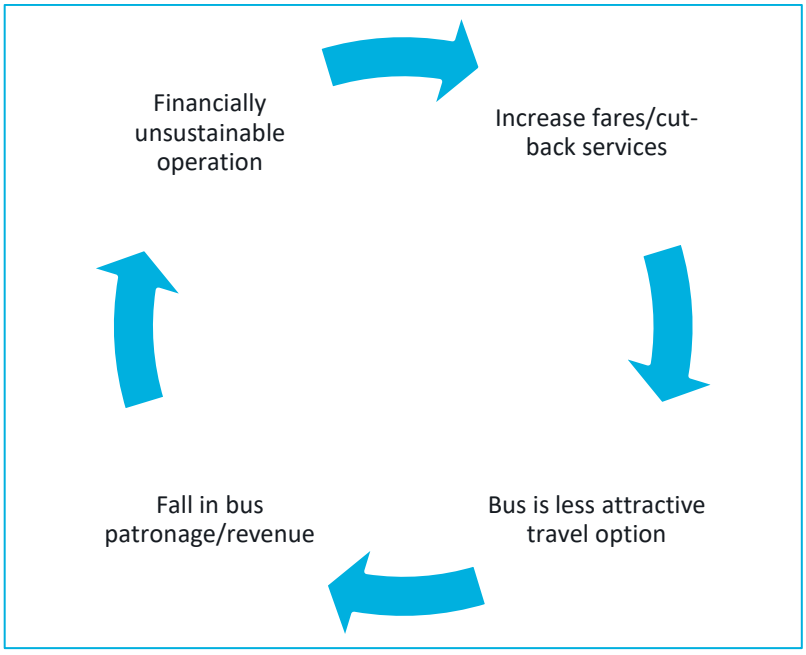
[35] For instance, see NERA (2006) *The Decline in Bus Services in English PTE Areas: the Quest for a Solution*

3.37 With no prospect of a material shift in the shortfall between revenue and costs, bus operators will respond quickly, most likely within weeks of Government financial support being removed.

A Vicious Circle

3.38 Increased fares and reduced services will make bus services less attractive to those who currently have choices about how to travel. It will make bus a less attractive option for those who are evaluating new travel choices, for example when they start a new job or go to a new school. Increased fares and reduced services will lead to a further reduction in the number of people travelling by bus, which in turn will lead to a further fall in bus operator revenue. Operators will respond with further service reductions and fares increases with further negative impacts on demand and the cycle will begin again. Illustrated in Figure 3.4, this is the so-called bus patronage vicious circle.

Figure 3.4: Bus Patronage Vicious Circle



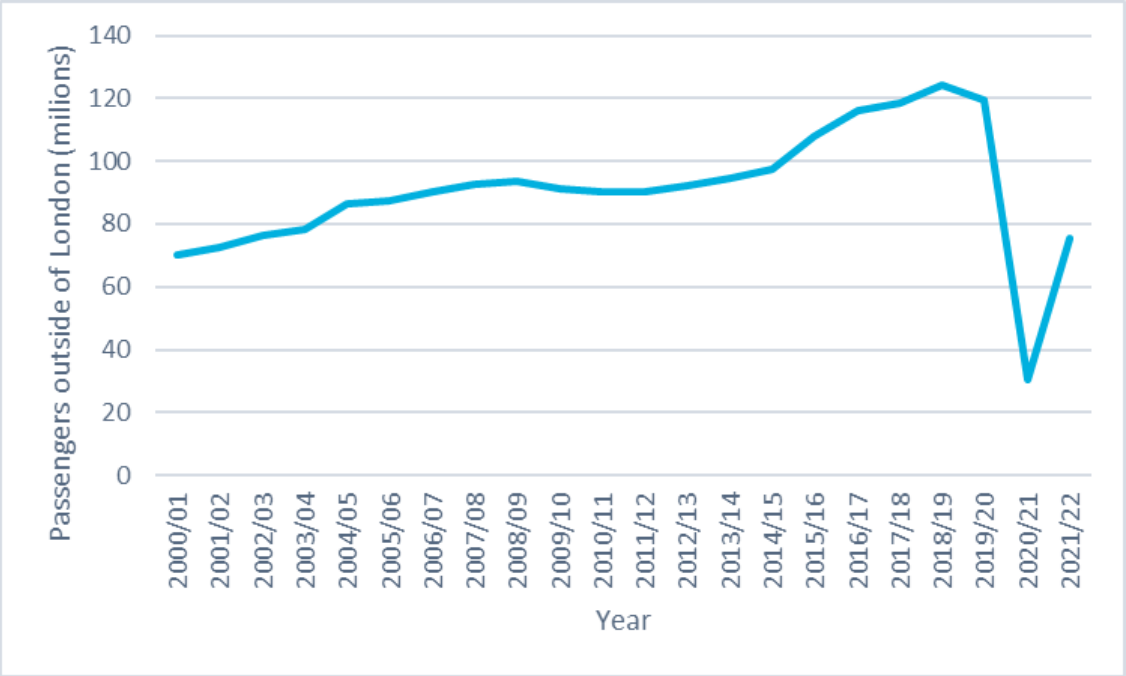
3.39 The challenge is to be able to break the circle and allow the bus network to stabilise, which in turn would create a platform for future growth. Without such stability, the prospect is for further decline.

Light Rail

3.40 This Chapter has focussed on buses in metropolitan areas, but light rail services will be affected in similar ways

3.41 Passenger demand for light rail has seen a steady increase over time and experienced a steep decline during the pandemic as shown in Figure 3.5. Figures for 2021/22 demonstrate that passenger demand is approximately 60% of pre-pandemic demand.

Figure 3.5: Light Rail Passenger Journeys



Source: DfT LRT0101

3.42 Government has financially supported light rail operations throughout the pandemic, an arrangement which ceased at the beginning of October 2022. Each light rail system has a different exposure to revenue risk, which means that each funding settlement between local transport authorities and Government is bespoke.

3.43 While we have not undertaken any detailed assessment of the impact of the pandemic on light rail patronage, the expectation is that, like bus, by the end of March 2023 patronage will still be less than pre-pandemic levels. How much lower will vary from system to systems. For instance, those light rail routes that serve areas with high public transport dependency such as West Midlands Metro have had a relatively strong recovery.

3.44 Across the metropolitan areas, light rail services are being operated at similar service levels to those pre-pandemic. Once financial ceases, operators will face similar challenges to bus operators with operating costs in excess of what can be supported by revenue. While Government has promoted the £2 fare initiative (paragraph 3.17) to encourage people back to bus, there is no similar initiative for light rail.

3.45 There are, however, two material differences between bus and light rail operations:

- Pre-pandemic light rail patronage was growing, reflecting that compared to car and bus alternatives, light rail provides fast and punctual connectivity to the town and city centres which were a focus of pre-pandemic economic growth.
- With light rail, there are fewer opportunities to escape costs than with bus. The wages paid to drivers and other operational staff and the costs per mile operated (electricity, wear and tear, etc.) are a lower proportion of light rail operating costs than of bus operating costs, although they face the same inflationary pressures as with bus services. Light rail has a number of fixed costs, for example associated with stops and stations, and maintenance and renewal that are independent of the number of people carried. Operating concessions may also inhibit the ability to secure real cost savings to the public

sector, for instance where contracts do not permit the scaling down of payments to the operator. While contracts can be renegotiated or relet, to do so would take time.

The Post Covid Bus Network

3.46 Here we explore what the potential reduction of bus patronage may mean to the bus services that are provided across metropolitan areas. Because each metropolitan area is different, so are their bus markets. Within metropolitan areas, there are routes that range in levels of operators' profitability, as well as supported services. Different metropolitan areas have different approaches and different budgets for supported services. What we say here can therefore only be a generalisation. This said, it is helpful to consider the bus market comprising of three segments:

- **Core Commercial** services – these are services that operators find most profitable. Such services include:
  - High frequency radial routes to the centres of cities and larger towns;
  - Routes that serve multiple centres, for example linking a string of local centres, and that have multiple and overlapping markets;
  - Routes that fill a niche, for example providing links between outlying towns and key centres that are not well served by rail;
  - Core Commercial routes often have relatively good services in the pre morning peak and post evening peak periods, and on Saturdays and Sundays.
- **Other Commercial** services – while operated profitably these services are the less profitable in an operator's portfolio. Such services are typified by:
  - Radial routes to town and city centres, but with few intermediate significant attractors/generators of demand;
  - Orbital routes, also with few significant attractors/generators of demand;
  - Lower daytime frequencies, perhaps 1 or 2 buses per hour (although low day time frequency is not necessarily an indication of low profitability and some low frequency services will fall into the Core Commercial group);
  - Limited pre morning peak and post evening peak periods, and limited services on Saturdays and Sundays.
- **Supported services**
  - Socially necessary services supported by the local transport authority;
  - Typically low frequency, serving dispersed markets. Patronage can vary such that there is a range of the effective 'subsidy per head' from low to high;
  - Supported services can also include *de minimis* support to commercial services, for example to add early morning, late evening or Sunday services to a schedule.

3.47 For the **Core Commercial** market, operators will look to maintain as much demand as possible. Nonetheless, it should be expected that they will increase fares. In addition, they will look to reduce operating costs through actions such as:

- Less frequent day time services, for example reducing frequency from six buses per hour to four buses per hour;
- Not running extra services in the morning and evening peak periods;
- Starting services later in the morning and ending them earlier in the evening;
- Reducing weekend services;
- Splitting routes, for example operating a higher frequency on higher demand inner sections of radial routes to city centres while having a lower frequency on outer section of the radial.

3.48 Those passengers who have no option but to travel by bus would in most cases still have bus available to them, albeit at higher fare and lower frequency. Journeys that involve interchange would become less attractive. In welfare terms, those with no alternatives will experience an economic disbenefit which, over time, will be become an impairment to the real economy. For those who have alternative options to bus travel, these will become relatively more attractive and some will choose not to travel by bus. This too would result in a welfare disbenefit. However, most would still be able to travel by bus should they choose to do so.

3.49 Users of **Other Commercial** services are likely to experience greater impacts:

- Less frequent day time services, for instance going from a two buses per hour service to a one bus per hour service;
- Withdrawal of early morning, late evening or Sunday services;
- Withdrawal of routes in their entirety.

3.50 For users of these Other Commercial services the impacts of such changes would be more profound than users of Core Commercial services. For those who can continue to use bus, the individual welfare impact will be far greater than for those who use Core Commercial services. Some who are dependent on bus will find that the services they previously used are no longer provided, which would have potential impacts such as no longer being able to get to and from their job or college.

3.51 **Supported Services** will face twin pressures:

- Lower post Covid patronage will worsen the value for money case for supporting what, pre Covid, were the least well-used services;
- There will be pressure on local transport authorities to step in and 'buy back' some services that will be cut from the commercial network. With constrained budgets, this will place further pressure on the least well used supported services.

3.52 Local transport authorities will face difficult choices on which services to add to the supported network, which to continue to support and which to cease to support. With fixed budgets, the outcome will be some places losing supported services, which pre-Covid the local transport authority had judged, by definition, to be socially necessary.

3.53 It takes time for local transport authorities to adjust their supported networks. Notice has to be given if contracts are to be ended. Assessments have to be made of what is the best way to support the network. Consideration has to be given to budgets and what can be afforded. All this creates hysteresis in the system with a consequence that there can be gaps between commercial services ending and a local transport authority stepping in. A high volume of network change over a short period will only amplify this effect.

3.54 A further challenge is that local transport authorities are experiencing upward pressures on tender prices. In part this reflects the increased costs that operators are facing (e.g., driver wages) and driver availability, as well as market uncertainty.[36] Should this trend become

[36] For instance, see **Operators voice concern over tendered bus costs**, Local Transport Today Issue 838, 31 January 2022

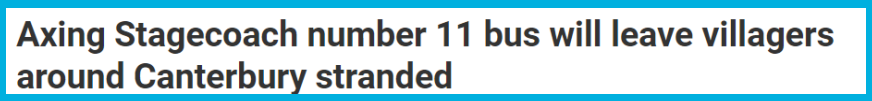
established, it will mean that local transport authorities will be able to buy fewer bus services within a fixed budget.

Case Study: Loss of Supported Services in Kent

In October 2022 Kent County Council (KCC) decided to withdraw the subsidy for 38 bus contracts, a third of their total subsidised routes. These routes are expected to cease operation in February 2023. The reason for the cuts was reported to be financial pressures placed on KCC's budget.

In the consultation response to the proposed cuts 41% of respondents stated that they don't have an alternative for at least one service being removed and 30% of respondents were the parents of children who would no longer be able to access school/college.

Consideration of services as a lifeline and a route to independence is higher than the average for the cancelled service users aged 75 & over (36%) and residents with a disability (37%). Fears of isolation and impact on mental wellbeing were key concerns.



Source: KCC (2022) *County Council - Thursday, 20th October, 2022 10.00 am* and (2022) Bus Funding Consultation Report

Restoring Demand

3.55 In *Bus Back Better: National Bus Strategy for England* the Government states that its aim is to restore bus patronage to pre-Covid levels and then for bus patronage to increase. If Government's Covid related financial support to the bus sector ceases at the end of March 2023, the combination of patronage being lower than pre-Covid levels and increased unit operating costs means there will be further decline in bus patronage as service levels adjust downwards to reach a new equilibrium between patronage and revenue, and operating costs. Without further intervention the Government's *Bus Back Better* aims cannot be met.

3.56 Steer's February 2022 report for UTG was produced at a time when it was planned for Government support to come to an end at the end of March 2022. [37] Analysis in that report suggested that if emergency funding ceased, bus patronage could fall as low as 70% of its pre

[37] Steer (2022) ***Continuing COVID Funding Support for Urban Public Transport***

Covid level. Soon after that report was published and as noted in paragraph 3.14the Bus Recovery Grant was extended, first to the end of October 2022 and later to the end of March 2023. Current levels of bus patronage (see Figure 3.1) compared with the projection of demand in a no-BRG scenario in our February 2022 suggests that this funding has had a material impact on maintaining services and thereby supporting demand recovery.

3.57 Our February 2022 report considered the impact of increasing post March 2022 public sector financial support by 50% (scenario 1) and 100% (scenario 2) over pre-pandemic levels. Although both scenarios demonstrated the benefits of additional financial support, neither could ensure a return to pre-Covid patronage levels by March 2023. Since February 2022, there has been further upward pressure on bus operating costs. The only conclusion that can be drawn is that should emergency funding cease at the end of March 2023, the decline in service provision and then bus patronage that we forecast in February 2022 and which has been averted by the extension of Government's emergency support will come about.

3.58 A third scenario in our February 2022 report examined whether capital investment to reduce perceived bus journey times of each and every bus journey by five minutes could restore patronage to pre-Covid levels.[38] The report found that a capital investment could support an increase of bus patronage to a little below its projected Summer 2022 level of 85% of January 2020 level – it would reverse the then forecast post March 2022 decline but would not be sufficient to support patronage returning to pre-Covid levels.

3.59 What this earlier analysis and experience over the last six months or so indicates is that:

- DfT's Bus Recovery Grant has been effective at maintaining services and hence supporting patronage recovery
- On-going operating cost pressures combined with patronage being unlikely to recover much further means that when BRG ceases there will be a downward reduction in the level of service and loss of demand
- Public sector capital investment in bus priorities, improved waiting environments, better walk access to stops, etc. is important for making bus more attractive to users, but it is not the solution to returning demand to pre-Covid levels. Capital investment is more about halting and reversing the long-term decline in bus patronage (see Figure 2.1) As recognised by *Bus Back Better*, to do so will require concerted effort over many years to improve bus journey times, to make buses more punctual and improve the quality of journeys, which together will increase the value for money that bus services offer to their passengers.

[38] This was considered by looking at reductions in "generalised journey time", a weighted combination of walking, waiting and travel time. Such a reduction could come about for improving waiting facilities, stop relocations and the link, as well as making buses travel faster through measures such as bus priority. Perceived journey times can also be reduced by making journeys more reliable. Such measures could be introduced in combination. A five-minute reduction in perceived time should not be taken to mean that all bus journeys are literally five minutes quicker.

4 Local Public Transport: National and Local Policy

Introduction

4.1 As set out in previous sections, local public transport provides significant benefits across a range of sectors and supports the Government's policy agenda. Analysis of both bus and light rail use demonstrates that whilst these forms of transport continue to deliver these benefits and support growth and regeneration, local public transport is facing issues relating to commercial viability. This section of the report describes how the Government policy is supporting local public transport.

National Government

Bus Back Better

4.2 Published in March 2021, *Bus Back Better* is the Government's national bus strategy for England.[39] The strategy builds on the then Prime Minister's February 2020 statement to Parliament which said that £5bn would be allocated to improve buses and cycling,[40] of which £3bn was subsequently allocated to the bus sector. The strategy states that "buses are the easiest, cheapest and quickest way to improve transport".[41] It sets out the role of bus in serving communities and the Government's vision for future services, including:

- More frequent 'turn-up-and-go' services, where passengers don't need a timetable due to very high frequency, on major urban routes;
- Faster and more reliable services with greater priority for bus on urban roads;
- Cheaper fares with greater adoption of daily (and weekly) price capping;
- Simpler, easier to understand networks with simple high-frequency trunk services rather than many low-frequency services combining together; all operators on the same physical route accepting the same tickets; and routes being the same in the evenings and at weekends as during weekdays;
- 'Greener buses', with more ultra-low-emission and electric vehicles in bus fleets, particularly in urban areas suffering from substandard air quality;
- Returning patronage to pre-Covid levels and raising bus mode share over the longer-term.

4.3 The strategy seeks to deliver other benefits to passengers:

- Key Route and (loosely defined) "Superbus" networks for peri-urban areas;

[39] DfT (2021) *Bus Back Better: National Bus Strategy for England*

[40] UKGOV (2020) **PM statement on transport infrastructure: 11 February 2020**

[41] Page 4, National Bus Strategy, *op. cit.*

- More comprehensive "socially necessary" bus services (for which it is stated that new guidance will be issued, including additional definition of "economically necessary" services);
- Lower and simplified fares;
- Multi-operator ticketing at prices close to or the same as single operator tickets;
- Roll-out of contactless payment including multi-operator daily and weekly fare capping;
- More multi-modal integration;
- All bus operators to accept Jobcentre Plus Travel Discount Cards;
- Services that are simpler and easier to understand;
- More demand-responsive transport services;
- A passengers' charter.

4.4 To achieve these aims, there is expectation that some of the £3bn will be used to provide additional subsidies to underpin them. However, the bulk of the £3bn funding is viewed as capital funding for:

- Support in delivering zero emission buses (up to 4,000) – the first tranche was £120m for 2021/22;
- Bus priority measures;
- Bus Rapid Transit (BRT) schemes.

4.5 Central to the *Bus Back Better* approach is what is effectively a mandate that Enhanced Partnerships (see Chapter 6) becomes the default way of delivering bus services across England. If local transport authorities chose not to pursue an Enhanced Partnership, the strategy sets out that they and operators in their area will not be able to access DfT bus funding including the Covid-19 Bus Services Support Grant (CBSSG) and its successor, Bus Recovery Grant (BRG). The strategy also set April 2022 as the date from which each local transport authority should have an Enhanced Partnership in place, although this deadline was later relaxed.

4.6 The strategy also introduces Bus Service Improvement Plans, which are to be produced annually by every Local Transport Authority.

Bus Back Better: The Government's Objectives

"Even before the pandemic started, the Government had committed £3bn of new money during the current Parliament to improve buses outside London. Armed with that transformational funding, this National Bus Strategy will build back better. Its central aim is to get more people travelling by bus – first, to get overall patronage back to its pre-Covid-19 level, and then to exceed it. We will only achieve this if we can make buses a practical and attractive alternative to the car for more people.

To achieve our goal, this strategy will make buses more frequent, more reliable, easier to understand and use, better co-ordinated and cheaper: in other words, more like London's, where these types of improvements dramatically increased passenger numbers, reduced congestion, carbon and pollution, helped the disadvantaged and got motorists out of their cars.

We want the same fully integrated service, the same simple, multi-modal tickets, the same increases in bus priority measures, the same high-quality information for passengers and, in

larger places, the same turn-up-and-go frequencies. We want services that keep running into the evenings and at weekends."

Source: Page 8, DfT (2021) *Bus Back Better: National Bus Strategy for England*

Levelling Up White Paper

4.7 In February 2022, the Government published its *Levelling Up the United Kingdom* White Paper.[42] The White Paper notes the importance of bus provision as part of its levelling up approach. It restates the funding commitments made in *Bus Back Better*.

> "Local transport, particularly buses, is crucial to connect people to jobs, education and wider opportunity."[43]

4.8 The Levelling Up White Paper introduces twelve "missions". These include that:

- "By 2030, local public transport connectivity across the country will be significantly closer to the standards of London, with improved services, simpler fares and integrated ticketing."[44]
- The "standards of London" are defined in *Bus Back Better* buses as being, "more frequent, more reliable, easier to understand and use, better co-ordinated and cheaper".[45]

Transport Decarbonisation Plan

4.9 Published in July 2021, *Decarbonising Transport: A Better, Greener Britain* sets out the Government's approach to decarbonising the transport sector.[46] It notes that transport is the largest contributor to UK domestic greenhouse gas (GHG) emissions, responsible for 27% in 2019.[47] Domestic GHG emissions from transport have been broadly flat for the last 30 years, even as those of other sectors have declined. Better engine efficiency has been made up for by increasing numbers of journeys; emission reductions from the growth in the number of electric and hybrid vehicles has been offset by the growth in diesel and petrol SUVs.

4.10 The Plan commits Government to delivering "a step change in the breadth and scale of our ambition on transport emissions to reach net zero". It goes on to say that the measures used to decarbonise transport "must also deliver the vast wider benefits available during this change, improving air quality, noise, health, reducing congestion and delivering high-quality jobs and growth for everyone right across the UK. The need to limit global warming to well below 2°C and to pursue efforts to limiting to 1.5°C means the UK Government is committed

[42] HM Government (2022) *Levelling Up the United Kingdom*, CP 604

[43] Page 177, *ibid.*

[44] Page 176, *ibid.*

[45] Page 8, DfT (2021) *Bus Back Better: National Bus Strategy for England*

[46] DfT (2021) **Decarbonising Transport: A Better, Greener Britain**

[47] International aviation and shipping are not included in this figure.

to moving as far, and as fast, as possible. This is about the pace of change as well as the destination." [48]

4.11 The Plan identifies the following challenges to be addressed:

- Improving air quality
- Reducing Emissions from transport
- Increasing Active Travel to improve Health outcomes
- Creating jobs in transport related green industries

4.12 The strategic priorities of the Plan include:

- Accelerating modal shift to public and active transport
- Decarbonisation of road vehicles
- Place-based solutions, bespoke solutions designed by each local transport authority
- UK as a hub for green transport, technology, and innovation

4.13 Local public transport has a role to play in meeting each of these priorities. In this regard, the Plan states:

"Buses and coaches have a crucial role to play in transport achieving net zero and driving the green transformation. We must increase the share of journeys taken by public transport – particularly in congested areas."[49]

4.14 To meet this goal, the Plan makes a number of commitments with respect to local public transport:

- "We will deliver the National Bus Strategy's vision of a transformed bus industry and a green bus revolution"
- "We will consult on modernising the Bus Service Operators' Grant in 2021"
- "We will support delivery of 4,000 new zero emission buses and the infrastructure needed to support them"
- "We will deliver the first All-Electric Bus Town or City"
- "We are consulting on a phase out date for the sale of new non-zero emission buses"[50]

4.15 We return to the Bus Service Operators Grant (BSOG) in Chapter 6, but here it is sufficient to note that at the time of writing (February 2023), Government has yet to consult on BSOG reform. In March 2022, Government consulted on its proposal to end the sale of new buses powered wholly or in part by an internal combustion engine by 2032 at the latest.[51]

Emerging Policy Position

4.16 In the Government's November Autumn Statement, the Chancellor set out that capital funding for transport infrastructure and revenue expenditure would be maintained at the levels set in Spring 2022 until 2024/25. Integral to this is a reduction in the Department for Transport's

[48] *Op. cit.* Page 14

[49] *Op. cit.* Page 64

[50] *Op. cit.* Pages 66-69

[51] DfT (2022) **Ending UK sales of new, non-zero emission buses and calls for evidence on coaches and minibuses**

revenue expenditure, while capital spend in maintained in nominal terms, which means that given high inflation in real terms this too is decreasing.

4.17 It is anticipated that the Government will want a sizeable proportion of the reduction in revenue support to come from a reduction in financial support to the rail sector as it adjusts to a post-Covid world. However, it can also be anticipated that Government will look closely at the financial support it gives to local public transport.

Combined Authorities

4.18 Reflecting the economic, social and environmental benefits that bus and tram/light rail use brings, local transport authorities across the country are working to support existing public transport patronage and create the conditions for further growth. Measures include, but are not limited to:

- Delivering reduced bus journey times and more reliable bus journeys through traffic management, including on-street and segregated bus priority and the use of urban traffic control;
- The development of new and regeneration/redevelopment of existing bus stations and multi-modal interchanges;
- Introduction of new park and ride facilities;
- The provision of higher quality waiting environments, including better lighting, CCTV, real time information, etc.
- The provision of better information before and during journeys, including use of journey planner apps and the provision of real time information via mobile phones and other mobile devices;
- Working with operators to introduce new fleets, including low emission and electric vehicles, often with enhanced passenger facilities such as wi-fi and USB charging points.

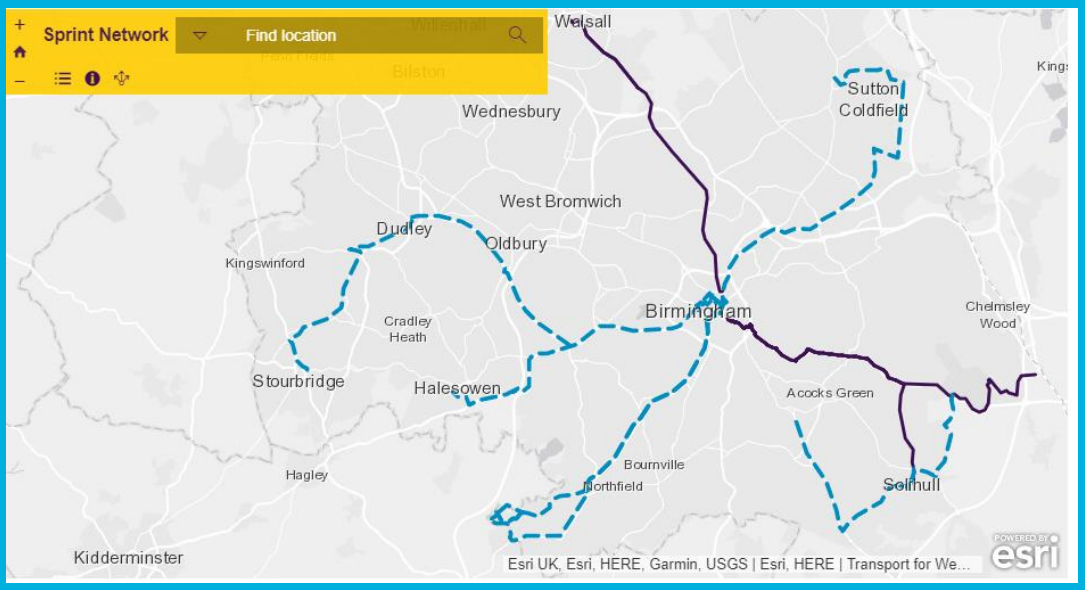
4.19 Reflecting the benefits that have already been secured, local transport authorities continue to develop proposals for further expansion of their tram/light rail systems, as well as the introduction of new systems elsewhere.

Case Study: SPRINT, West Midlands

A series of Bus Rapid Transit corridors, known as SPRINT, which include bus priority measures, dedicated transit-only lanes, new waiting and stop facilities and high-quality, articulated 'tram-like' vehicles are planned for the West Midlands area, under the direction of Transport for the West Midlands. A number of bus priority measures are already in place across the West Midlands, for example Birmingham has over 120 sections of bus lane and 20 bus-only roads.

Two SPRINT schemes were prioritised to be delivered by 2022 to support the Commonwealth Games: a route connecting Walsall to Birmingham City Centre (via the A34) and from Birmingham City Centre to Solihull and Birmingham Airport (via the A45), expected to benefit more than 30 million bus trips a year, and provide more than £200m of economic benefits.

Investment in SPRINT is also accompanied by continued capital investment in the existing bus network, including on bus priority to reduce journey times and improve reliability, and on new higher-quality, low and zero-emission vehicles. As set out in TfWM's Vision for Bus, new investment in bus priority in Birmingham City Centre will facilitate new 'cross-city' routes, delivered by 2024.



Source: TfWM.org.uk

In November 2022 it was announced that bus services were more reliable and average journey times up to 22% quicker along the two Sprint routes following the introduction of the bus priority measures.

5 Delivery of Local Public Transport

Introduction

5.1 As it is relevant to the consideration in Chapter 7 which looks at options for reforming local public transport support, in this Chapter we offer a brief overview of how local public transport services are provided in England. First, we look at bus before turning to light rail.

Bus

Background

5.2 Since 1986, outside London bus services have been provided in a deregulated environment:

- Operators are permitted to run bus services when and where they wish (subject to a short notice period) with no restrictions over fares. [52] These "commercial" services can compete with those of other operators, or other public transport services (e.g., rail or light rail). They operate without any direct subsidy other than the Bus Services Operator Grant (BSOG) and operators are obliged to carry at no charge passengers who have English National Concessionary Travel Scheme (ENCTS) passes) for which they receive monetary compensation. Both BSOG and ENCTS are discussed in the next Chapter.
- Local transport authorities (LTAs) can, but are not obliged to, procure bus services to fill gaps not met by "commercial" services. Procurement of these socially-necessary "supported" services has to be by competitive tender (unless the cost is very small). Services can be procured on a net or gross cost basis.

5.3 Since deregulation there have been a series of Acts of Parliament (2000,[53] 2008[54] and 2017[55]) which have amended some aspects of deregulation. In general, these have:

- sought to permit and encourage formal partnerships between operators and LTAs to deliver schemes and measures that would encourage growth in bus use, in particular by encouraging modal change from the car;
- made it easier to design and deliver multi-operator ticketing; and
- allowed LTAs, in specified circumstances, to suspend deregulation in a defined area and replace it with a franchised bus network.

5.4 With its National Bus Strategy White Paper (*Bus Back Better*), Government has in effect made Enhanced Partnership (see below) the default way of providing bus services in a deregulated

[52] The specific length of notice has varied over the years since 1986 and is now different between England and the devolved legislatures of Wales and Scotland.

[53] Transport Act (2000)

[54] Local Transport Act (2008)

[55] Bus Services Act (2017)

environment. Greater Manchester Combined Authority is now implementing a franchising scheme and a number of other mayoral combined authorities are exploring potential regulatory reform, including franchising options.

Enhanced Partnerships

5.5 The 2017 Bus Services Act introduced Enhanced Partnerships (EPs). These reflect the position from the bus industry that it is capable of voluntarily delivering most of the perceived benefits of franchising (see below) through partnership so long as some of the competition law provisions are relaxed.

5.6 The general EP provisions allow for wide ranging arrangements that could, for example, see the coordination between operators of timetables and service connections; the adoption of common branding (i.e., removing the ability of an operator to distinguish itself through its own branding); and the adoption of common ticketing arrangements.[56]

5.7 In summary, the process for developing an EP is as follows:

- Informal discussion between LTA and local bus operators on the viability of an EP;
- Formal discussion on the viability of an EP with a decision to pursue this arrangement;
- Planning the EP plan and scheme(s) including:
  - Consultation process where local bus operators are asked to agree to a defined EP scheme;
  - Objection process where local bus operators comprising a certain amount of network mileage can potentially block the scheme as proposed via an objection.
- Wider consultation;
- Making the EP plan and scheme(s), taking into consideration the outcome of the consultation process.

Franchising

5.8 The Bus Services Act 2017 also provides for franchising bus services. Franchising sees the cessation of competition in the market and replaces it with competition for the market.[57] Legislation makes franchising open to mayoral combined authorities, which providing they follow the requirements of the Act and associated guidance, can introduce franchising without recourse to Government. Other LTAs require ministerial permission to introduce franchising and it is not clear how favourably ministers would consider such requests.

5.9 The National Bus Strategy states that those mayoral combined authorities that have started the statutory process of franchising bus services do not have to introduce an Enhanced Partnership.

5.10 The Greater Manchester Combined Authority is the furthest along the route to franchising. It prepared a scheme and subjected it to the required independent audit. The scheme was subject to formal consultation between October 2019 and January 2020.[58] Following review of the consultation and the impact of the Covid-19 pandemic, a revised proposal was developed

[56] Though not the setting of actual fare levels

[57] DfT (2017) *The Bus Services Act 2017 Franchising Scheme Guidance*

[58] GMCA (2019) *Have Your Say on How Your Buses are Run: Consultation Document*

and this was the subject of further consultation.[59] At the end of March 2021, the Greater Manchester Mayor decided to proceed with the franchising scheme.[60] It is now being implemented with the first contracts announced at the end of 2022. GMCA says that franchising will lead to simpler fares and ticketing, greater opportunities for integration of bus services and of bus services with the wider transport network, simpler travel information and a single brand and identity. Franchising is being introduced in three tranches with the goal to complete the move from a deregulated system by 2025.[61]

5.11 Other mayoral combined authorities are considering the potential for franchising options to deliver bus service improvements.

5.12 A summary of the Enhanced Partnership and Franchising approaches is set out in Table 5.1.

Table 5.1: Enhanced Partnership and Bus Franchising - Summary

Option	Provisions
Enhanced Partnership	• Legally binding commitments agreed between both LTA and operators with statutory plans and schemes made by the LTA that all bus operators providing applicable bus services in a specified area have to abide by • Only a majority of bus operators (by mileage operated) have to agree to the provisions of the EP, but once the LTA formally makes the statutory plan and schemes all operators have to abide by the provisions • EP Plan (EPP) is a high-level strategic document that sets out a range of policy objectives and desired outcomes in a defined area • EP Scheme(s) (EPS) set out the requirements/standards to be met by bus operators and the facilities/measures to be provided by the LTA to deliver some or all of the policy objectives stated in the EPP • Subject to the agreement, EPs can lead to coordination between operators of timetables and service connections; the adoption of common branding and the adoption of common ticketing arrangements
Franchising	• Suspension of the deregulated market • Bus operators provide services under contract to the local transport authority • Franchising provides for: – development of a coordinated bus network (routes/timetables) and closer integration with other modes (tram/rail) – Integrated multi-modal ticketing products and pricing – Single brand networks (e.g., livery) • Decision to implement rests with mayor for mayoral combined authorities or Secretary of State elsewhere

Light Rail

5.13 Outside London, there are six light rail systems currently operating in England:

- Blackpool Tramway
- Manchester Metrolink
- Nottingham Express Transit
- Sheffield Supertram
- Tyne and Wear Metro
- West Midlands Metro

[59] GMCA (2021) **Doing Buses Differently: The impact of Covid-19 on our proposals for the future of your buses**

[60] GMCA (2021) **Bus Franchising Scheme & Notice – 30 March 2021**

[61] See: **Our Buses**

5.14 The Tyne & Wear Metro, which is the light rail network that provides the majority local rail services in Tyne and Wear opened in stages from 1980. The first phase of the Manchester Metrolink, a tram-based light rail network, commenced operation in 1992 and has since been extended in phases . Modern tram systems have also been introduced in Sheffield, West Midlands and Nottingham, each using former rail alignments for part of their route. The Blackpool tram – the only first-generation tram system to survive the post Second World War closures – has been substantially upgraded and now has the characteristics of a modern tramway, as well as operating tourist-focussed heritage services.

5.15 The way each system is operated is also unique, but reflecting Government capital funding conditions, in the main, pre-Covid light rail systems covered their day-to-day operating costs from fare box revenue. Receiving direct grant from the Department for Transport, Tyne & Wear Metro is an exception to this, having been in receipt of direct grant support from DfT since the system was introduced, given it replaced what would today otherwise be part of much larger Northern Rail network. How each system is operated and where revenue risk lies is set out in Table 5.2.

Table 5.2: English light rail systems outside London

Network	Length (km)	Description	Operation and revenue risk
Blackpool Trams	18	Follows coast between Blackpool and Fleetwood. Significant seasonal traffic	Direct award to council owned bus company which takes revenue risk
Manchester Metrolink	103	Seven lines radiating out from city, mixture of new alignments, on-street and heavy rail conversion	Seven-year concession to KeolisAmey until 2024. TfGM takes revenue risk
Nottingham Express Transit	32	Cross city tram spine with routes to the North, South and West of city	A DBOM concession granted to the Tramlink Nottingham consortium which takes revenue risk
Sheffield Supertram	34	On street or new build lines to north west, north east and south east of city. The link with Rotherham is the UK's only tram-train	Operated by Stagecoach who hold the concession until March 2024. Stagecoach takes revenue risk
Tyne & Wear Metro	78	Combines heavy rail conversions with tunnel section under Newcastle/Gateshead Operates on Network Rail infrastructure to Sunderland, sharing track with heavy rail passenger and freight services. Shares its network with freight in South Tyneside – both arrangements subject to Track Access Agreements.	PTE owns the infrastructure. Largely in-house operation with PTE taking revenue risk (train maintenance outsourced to fleet manufacturer)
West Midlands Metro	22	Largely follows former rail alignment between Wolverhampton and Birmingham. On street sections in both centres. Extensions under construction	In house operation with LTA taking revenue risk

6 Mechanisms for supporting Local Public Transport

Introduction

6.1 In this chapter the two key continuous forms of subsidy are introduced; Bus Service Operators Grant (BSOG) and the English National Concessionary Travel Scheme (ENCTS). Both mechanisms provide a type of subsidy to support the ongoing viability of bus services. In this chapter we look at the history of each subsidy, how it is implemented and the benefits it provides. Finally, this chapter sets out how else the public sector supports local bus services.

Bus Service Operator Grant (BSOG)

6.2 Bus Service Operators Grant (BSOG) is a grant paid by the Department for Transport to reimburse bus operators. It was originally introduced in 1965 as the Fuel Duty Rebate (FDR), with the objective (as suggested by its name) to refund bus operators the excise duty that they paid on fuel. The overall goal was to reduce overall bus operating costs and hence the fares paid by passengers. In 2002 the Labour Government renamed the rebate Bus Service Operators Grant.

6.3 BSOG is not a 100 per cent rebate on the pump price of fuel but allows operators of registered local bus services to receive a rebate of around 70 to 80 per cent of the fuel duty they pay. BSOG is payable for most local bus services. For commercial services, BSOG is a grant paid directly to bus operators by DfT. Additional repayments are made for services meeting certain standards, such has using smartcard enabled ticket machines. For tendered services, BSOG is paid to the tendering authority. BSOG for London services is wrapped up in the general TfL financial settlement.

6.4 It is recognised that a rebate based on fuel duty is not appropriate for zero emission buses powered by batteries. BSOG provides a fixed subsidy payment per kilometre operated by these buses on qualifying bus services.

Background

6.5 Bus operators were first given grants to help with paying fuel duty in 1964 following an increase in road fuel duty.[62] Relief covered all further increases in duty up until 1974, when it was decided to provide relief up to the full cost of fuel duty.[63] To obtain the fuel duty rebate, operators had to claim based on the number of vehicle miles operated on eligible services and the average fuel consumption achieved by the fleet.

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[62] section 92(1) of the Finance Act 1965 – allowed retrospective application of grant up to six pence per gallon

[63] section 54 of the Finance Act 1974

6.6 In 1993 it was announced that Fuel Duty Rebate would be frozen at pre-Budget levels. Since the level of rebate is paid under the Secretary of State's discretion, no legislation was required for the rebate to be frozen.[64] Local bus companies argued that freezing the rebate would lead to a reduction in services, and an increase in car traffic, worsening the level of vehicle emissions as a result.

6.7 In 1998, following a review of Vehicle Excise Duty (VED) the Labour Government announced that excise duties on oil and petrol would be increased by at least six per cent in real terms.[65] The Chancellor also announced that the fuel duty rebate would be increased "to help keep bus fares down".[66]

6.8 In the *Transport 2010: The Ten Year Plan*, published in July 2000, the then Government said that it would consult on extending the rebate.[67] Section 154 of the Transport Act 2000, which came into law in November of that year, made new statutory provision for grants to bus operators, including power to make regulations as to the classes of bus services for which grant may be paid, and the method of calculation. This meant that provision could, for example, be made for differential rates of grant to encourage the use of more environmentally friendly fuels or vehicles. With new regulation in 2002, Fuel Duty Rebate was renamed "Bus Service Operators Grant".[68]

6.9 In the 2004 Transport White Paper it was proposed that for tendered services BSOG be replaced with an equivalent sum paid to the local authority rather than the bus operator.

6.10 In December 2006, the Labour Government published proposals for reforming the bus industry. Part of this was to consider the scope for refocusing the bus subsidy regime to target it as effectively as possible and support the Government's environmental objectives. The proposals stated that the Government was in the process of reviewing whether there was a case for reforming BSOG to "ensure that it continues to deliver best value for taxpayers' money, and supports as far as possible the Government's objectives, e.g. for bus performance and environmental protection".[69] This was followed by a consultation paper in March 2008, which stated that BSOG provided "good value for money" and that any reform must take account of the environmental costs of road traffic pollution. The package of reforms in the consultation paper included, *inter alia*, capping BSOG at a minimum fuel efficiency level; introducing new arrangements for Low Carbon Buses; devolving payments to areas

[64] HC Deb 30 November 1993, c938; the rate of duty on road diesel rose from 25.14p per litre to 27.70p per litre

[65] HM Treasury press notice, "*Tax measures to help the environment*", 2 July 1997. In March 1993 the Major Government introduced a 'Fuel Duty Escalator,' an annual increase in duty at 3% over and above the rate of inflation. This was increased to 5% above the inflation rate later in the same year and then increased to a 6% increment in 1997 by the Blair Government. The Fuel Price Escalator was suspended in 2000following protests led by road hauliers.

[66] HC Deb 17 March 1998, c1109

[67] DETR, *Transport 2010: the 10-year plan*, July 2000, para 6.57

[68] *Bus Service Operators Grant (England) Regulations 2002* (SI 2002/1015), as amended.

[69] DfT, *Putting Passengers First,* December 2006, p9

undertaking Quality Contracts;[70] and tiering rates.[71] The paper also put forward ideas for longer term reform of bus subsidies, including:

- devolving all bus subsidies to local authorities;
- paying BSOG on a per passenger payment rate, or a passenger kilometre basis; and
- exploring more radical options for linking BSOG and concessionary fares reimbursement.[72]

6.11 In April 2009 a change to the BSOG scheme was implemented so that operators could claim an additional payment per kilometre operated by a low-carbon bus. [73] In December 2009 the then Labour Government indicated its intention to overhaul the scheme to move away from paying support for fuel consumption and towards paying support based on passenger numbers. In April 2010 two further changes came into force - operators received an increase in their BSOG rate if they had operational ITSO smartcard systems and a separate increase for buses fitted with GPS equipment. No further changes were implemented before the 2010 general election.

6.12 As part of the Coalition Government's Spending Review, in October 2010 it was announced that BSOG would be reduced by 20 per cent, reducing expenditure by £300 million by 2014/15. This reduction is shown in Figure 6.1. In 2011 the Department for Transport stated that the reduction in BSOG would lead to an increase in fares and reduction in services and patronage.[74]

[70] Quality Contracts were an alternative regulatory regime to the deregulated market outside London in which the local transport authority would specify and procure all local bus services. No Quality Contract Schemes were put in place and the provision was subsequently replaced in legislation by bus franchising.

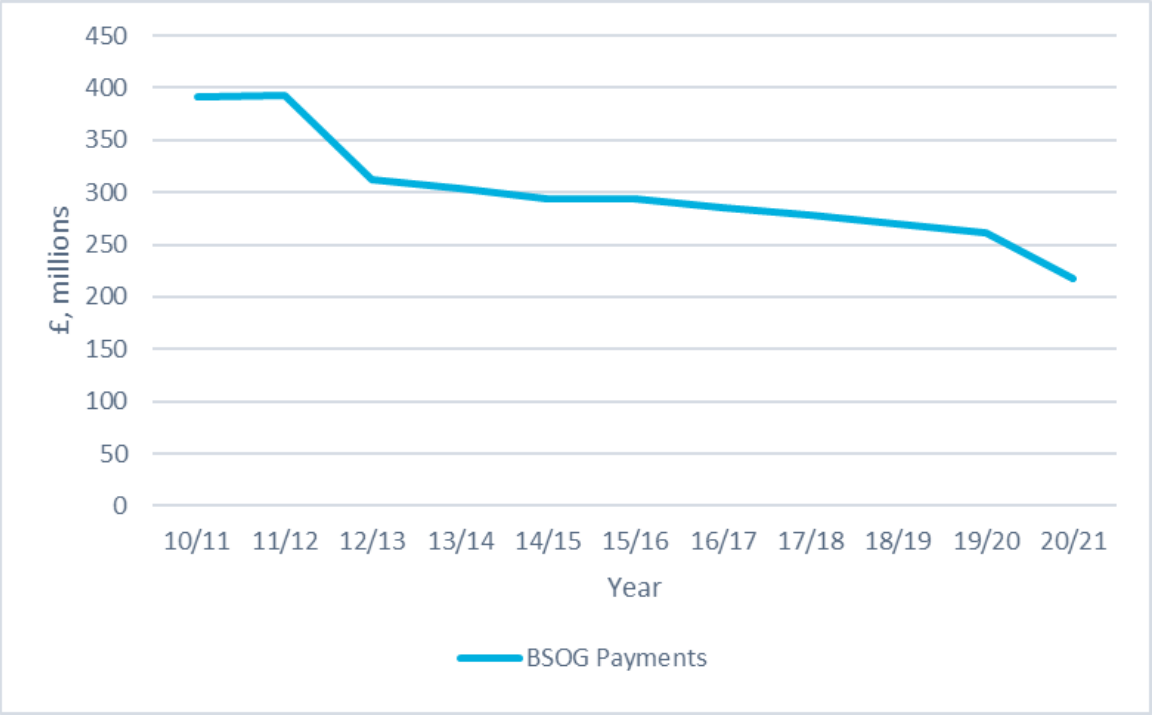
[71] DfT, *Local Bus Service Support – Options for Reform: Consultation paper,* March 2008, p14-21

[72] DfT, *Local Bus Service Support – Options for Reform: Consultation paper,* March 2008, p23

[73] HL Deb 15 December 2009, cc223-225WS

[74] Written evidence to the Transport Committee, published in January 2011.

Figure 6.1: BSOG paid by Central and Local Government 2010/11-2022/2023



Source: DfT (2022) BUS0502b

6.13 In 2013, further reforms to bus subsidy were announced:[75]

- creation of a new local government fund - Better Bus Areas
- devolution to Transport for London and the Greater London Authority of the BSOG paid to London bus operators who operate services under contract to TfL
- tightening the existing rules defining which bus services can claim BSOG, so that the available funding is put to the best possible use
- paying BSOG to local authorities, rather than operators, where funding relates to services they support (i.e. socially-necessary tendered services). From January 2014, the DfT has paid an annual grant to eligible local authorities in England which replaces the Bus Service Operators' Grant (BSOG) for tendered services.

6.14 Better Bus Areas was an initiative to transfer BSOG payments from bus operators to local authorities. The aim was that over a five-year period five local authorities would work in partnership with local bus operators to use the funding to implement schemes that would encourage greater bus use. The five pilot local authority areas were Liverpool City Region, Nottingham, Sheffield, West of England and York. After the five-year period, BSOG payments reverted to the bus operators.

6.15 The devolved funding and administration of BSOG for commercial bus services from the Secretary of State to the Greater Manchester Combined Authority (GMCA) commenced in 2017. GMCA releases funding to TfGM which then makes payments to the operators.

[75] UK GOV (2013) *Bus Service Operators Grant (BSOG) Reforms, Written statement to Parliament*

6.16 In April 2022, an additional zero-emission bus incentive was introduced.[76]

6.17 The Government's *Bus Back Better* 2021 strategy committed to reform BSOG, with a consultation planned to consider the following:

- moving the main element of BSOG from fuel consumption to a distance rate with the goal of addressing the current problem where base BSOG is not paid to electric vehicles (except for a small incentive payment);
- updating the low carbon incentive to better meet environmental objectives. The existing incentive started in 2009 so is based on comparisons to a Euro III bus (Euro VI is the current standard);
- an additional amount for rural bus services;
- new incentives for demand responsive transport, which could encourage the delivery of services, and bus use, in rural areas;
- efficiencies from administrative changes such as payments in arrears;
- ending payments for 'dead' mileage between depots and the start or finish of passenger services; and
- making the reformed BSOG available only to LTAs and operators in an Enhanced Partnership, or where franchising is being actively pursued.

6.18 From 2010 to 2022, the rate of diesel excise duty was frozen at 57.95p per litre. From March 2022 to March 2023 a temporary reduction in duty to 52.95p per litre is in place to assist consumers with the high cost of fuel. The basic BSOG rate is 34.57p per litre with additional payments for having each of operational smartcard systems, automatic vehicle location equipment and a low carbon emission certificate. The basic BSOG rate recover around 60% of the pre-Match 2022 duty. When operating zero emission buses operators receive a payment of 22p per eligible kilometre.

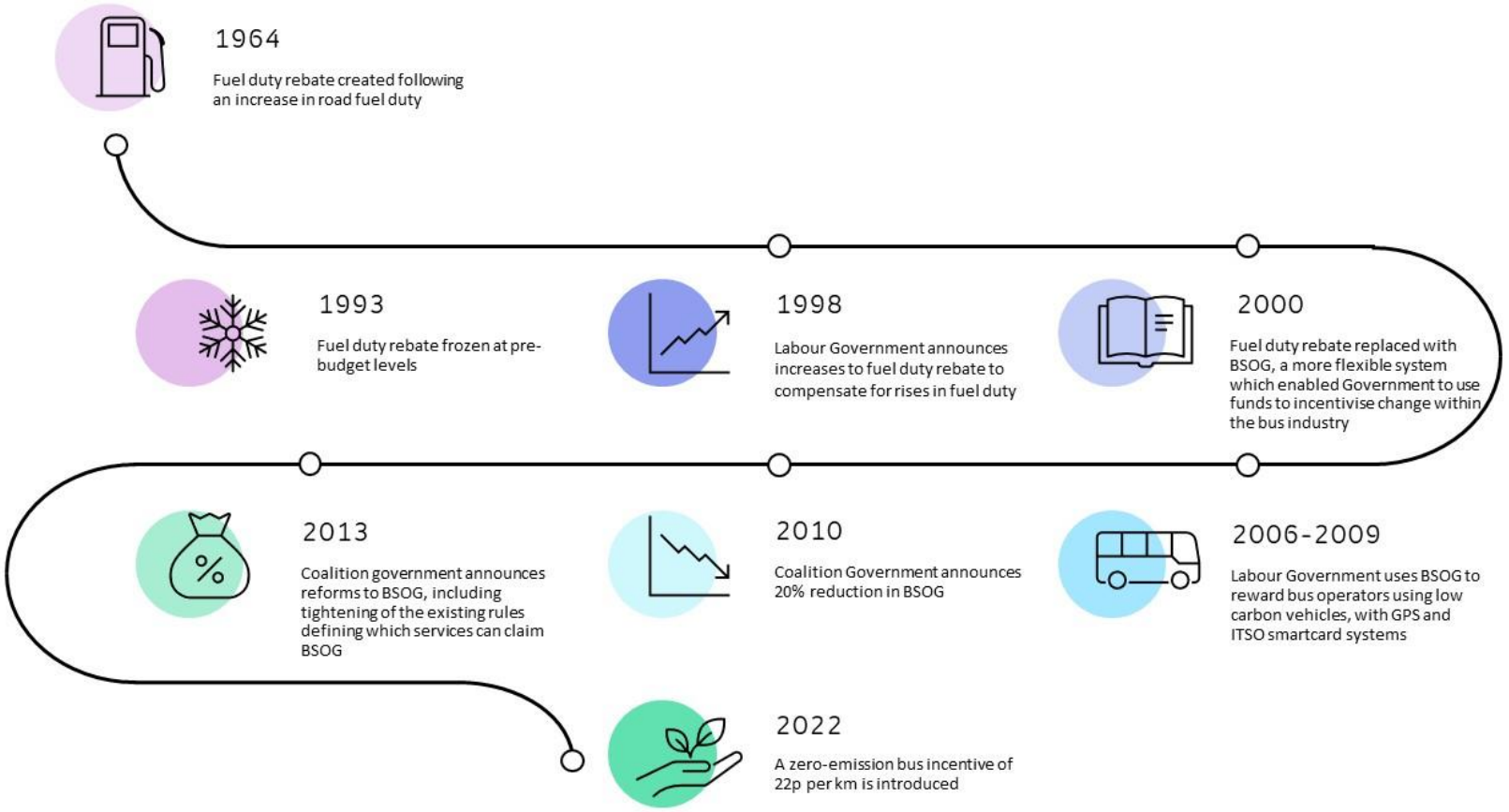
Overview

6.19 A summary of the principal changes that have been made to the Fuel Duty Rebate/BSOG regime is shown in Figure 6.2. In 2018/19, the last full pre-pandemic year, £194m was paid to English bus operators and £55m to English local transport authorities.[77]

[76] UK GOV (2022) Bus Service Operators Grant Guidance for Commercial Transport Operators

[77] **Bus services: grants and funding**

Figure 6.2: BSOG Timeline



The Benefits of BSOG

6.20 In its 2011 submission to the House of Commons Transport Select Committee, the DfT said that its analysis showed that BSOG helped on average ensure that bus fares were around 7% lower than they would be otherwise and that outside London bus service levels (vehicle-kilometres) were around 7% higher than they otherwise would be. The same submission said that a 20% reduction in BSOG would be expected to lead to around a 1% increase in fares and a 1% reduction in bus services.

6.21 The DfT's submission went on to state that its Equalities Impact Assessment on the then planned reductions to BSOG noted that the greater users of bus are women relative to men, people aged 17–20 relative to people aged 30–59, ethnic minorities compared to White British people, and people with mobility difficulties compared to people without mobility difficulties and therefore they are potentially more negatively affected by the reduction in bus subsidy. The DfT noted that older and disabled people would be protected from changes in bus fares through the availability of the English National Concessionary Travel Scheme (ENCTS) (see below).

6.22 In that 2011 submission, DfT stated that its assessment was that BSOG offered high value for money with around £2 worth of benefits per £1 of BSOG spent, as well as additional non-monetised benefits such as greater accessibility. It estimated that the benefits of BSOG came about from: quicker and cheaper journeys for bus users (representing around 58% of the benefits of BSOG) and external benefits (representing around 27% including lower congestion and better environmental outcomes).[78]

6.23 A 2017 report by Greener Journeys analysed of the costs and benefits arising from BSOG identified that the scheme delivers high value for money with each £1 spent generating between £2.70 and £3.70 in benefits, including wider economic and social impacts. Their analysis showed that around 60 per cent of the benefits accrue directly and immediately to bus passengers in the form of lower fares and higher service levels, around 10 per cent of the benefits accrue to other road users from transport network improvements, and the rest to the wider community from wider economic and social impacts.[79]

Alternatives to BSOG

6.24 In 2002, the Commission for Integrated Transport (CfIT) concluded that the bus could compete with the car in certain circumstances "if subsidy is increased and re-focused".[80] CfIT was a body established in 1999 by the Labour Government to provide independent advice to government on integrated transport policy in England. It was abolished by the Coalition Government in 2010. Its 2002 report recommended that fuel duty rebate should be replaced by an Incentive Payment per Passenger boarding (IPP), although additional funding should be made available for socially necessary services in areas adversely affected by the change.[81]

[78] Written evidence from the Department for Transport in House of Commons Transport Committee (2011) *Bus Services after the Spending Review* HC750

[79] Greener Journeys (2017) *Costs and Benefits of the Bus Service Operators Grant*

[80] CfIT press notice, "CfIT puts bus at heart of transport delivery", 2 December 2002

[81] op cit., *Public subsidy for the bus industry*

6.25 As noted above, the Labour Government's March 2008 consultation paper also raised the idea of a per passenger payment, as well as options for linking BSOG and concessionary fares reimbursement and paying BSOG directly to local authorities.

6.26 The proposals to move to per passenger payment did not meet with universal approval. In particular, it was noted that:

- the services receiving the most payments would be those that are most highly used and therefore most profitable – arguably such services were those least in need of subsidy; and
- there was likely to be an overall transfer of BSOG replacement funds from rural to urban areas – again arguably introducing a tendency to transfer subsidies away from where they were most needed.

6.27 The Labour Government made no further progress with BSOG reform before the 2010 election.

6.28 As set out in Chapter 4, in *Bus Back Better* the Government has committed to consult on BSOG reform.

Summary

6.29 As shown in the above sections, BSOG has transformed from a simple relief from fuel duty into a tool to meet wider societal objectives. Goals have been extended over time from the original fuel duty rebate aim of reducing fares from what they otherwise would to meet wider societal objectives through supporting the level of service provision and incentivising change within the bus industry.

6.30 The DfT's current stated position is that BOSG aims to benefit passengers by:

- "helping operators keep fares down
- enabling operators to run services that might otherwise be unprofitable and be cancelled"[82]

6.31 However, as seen from the discussion above BSOG has been used for more than this. Additional payments over and above the basic BSOG payment have been used to incentivise bus operators to adopt new technologies, all with the goal of extending the benefits felt by passengers. Trialled reforms, principally Better Bus Area, are an indication that 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.

6.32 Moreover, as the reimbursement of BSOG is principally directly linked to bus fuel consumption, it fits poorly with the goal of decarbonising bus travel and the greater adoption of electric vehicles (see Paragraphs 4.9 *et seq.*). Noting that there are payments for electric vehicles, at present a bus operator would receive more subsidy if it increased (or less if it reduced) its fuel consumption. BSOG in its current form is poorly linked to environmental objectives, particularly those associated with climate change. There are also questions about how well it supports meeting the objectives that Government has set in the *Bus Back Better*.

[82] UKGOV (2022) **Guidance Bus Service Operators Grant: guidance for commercial transport operators, 31 March 2022**

English National Concessionary Travel Scheme

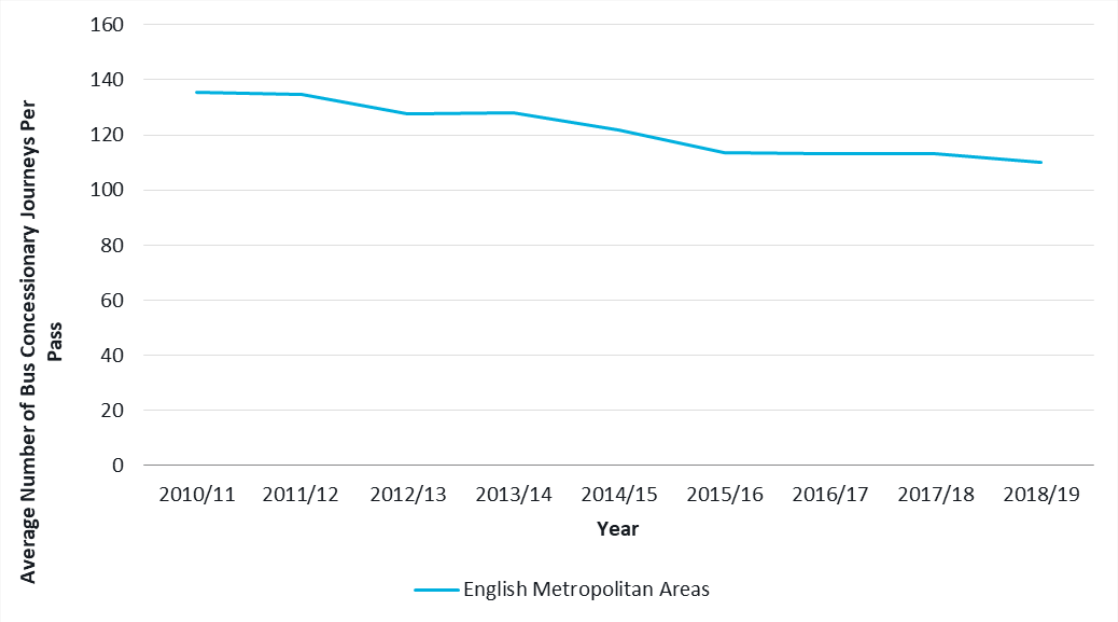
Background

6.33 First announced in the 2005 Budget and then modified in the 2006 Budget, from 1st April 2008 pension-age English residents and eligible disabled people have been entitled to free bus travel on qualifying bus services between 09:30 and 23:00 weekdays and at any time weekends and public holidays. This is the English National Concessionary Travel Scheme (ENCTS). Recognising "the importance of public transport for older people and the role access to transport has to play in tackling social exclusion and maintaining well-being",[83] the stated rationale for ENCTS was to "reduce the cost of travel for approximately 11 million people … and approximately 2 million disabled people … [and] help approximately 54 per cent of pensioner households who do not have a car to travel freely in their local area".[84]

6.34 In 2018/19 £981m was paid in concessionary fare reimbursement, made up of £218m for London, £304m in metropolitan areas and £458m elsewhere.[85]

6.35 The number of bus concessionary journeys per pass holder has been falling steadily, as shown in Figure 6.3. In part this reflects changes to eligibility (e.g., increased pension age), as well as the rate of take up of the pass.

Figure 6.3: Average Number of Bus Concessionary Journeys Per Pass in English Metropolitan Areas



Source: DfT Concessionary Travel Survey

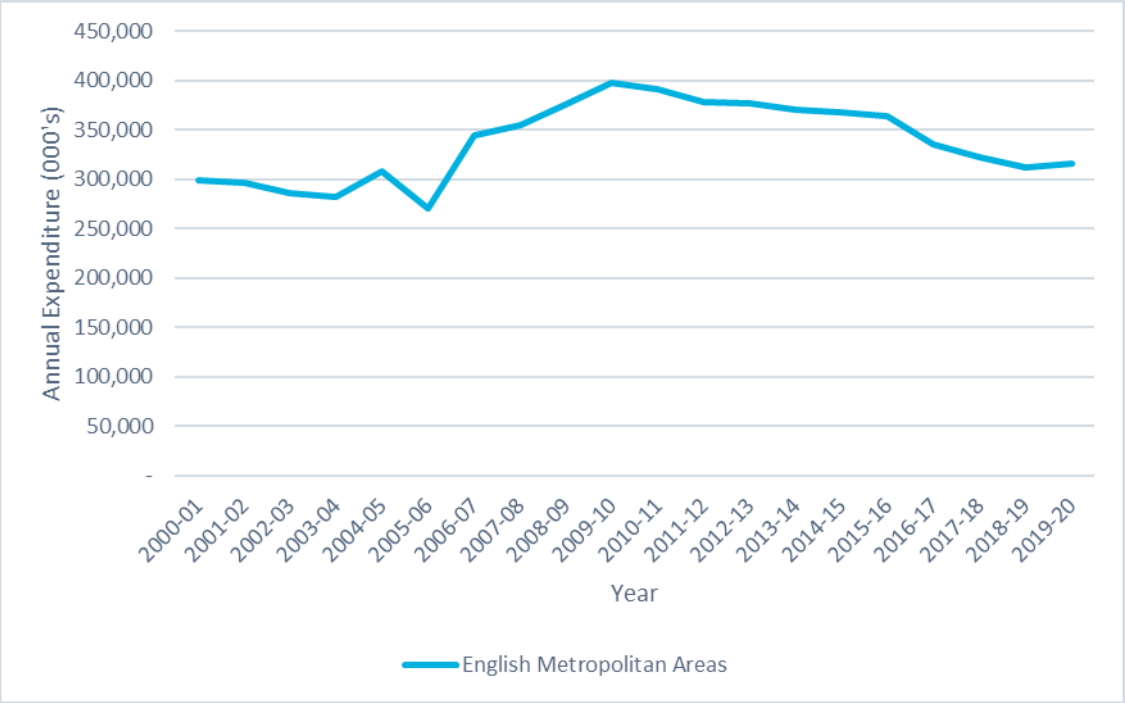
6.36 In real terms, the amount paid out has also fallen in recent years, as shown in Figure 6.4. This fall is due to a combination of reductions in passenger numbers and the rise in pension age.

[83] Paragraph 5.50 *Budget 2006 A strong and strengthening economy Investing in Britain's future* HC968, March 2005

[84] Paragraph 5.65 *Budget 2005 Economic and Fiscal Strategy Report and Financial Statement and Budget Report*, HC372, March 2005

[85] DfT Bus statistics BUS0502

Figure 6.4: Annual Expenditure on Concessionary Travel



Source: DfT Bus Statistics BUS0811B

6.37 At their own cost, local authorities may provide further concessions in accordance with their local priorities. Some local authorities have opted to extend the provision of concessionary travel and fund these locally. Such extensions include:

- Adding light rail or the local journey on the national rail network to the free travel scheme or offering reduced cost travel to passholders;
- Extending the time availability of free or reduced travel;
- Extending the applicable age range;
- Adding other categories of user qualifying for free or reduced fare travel – e.g., children and young adults.

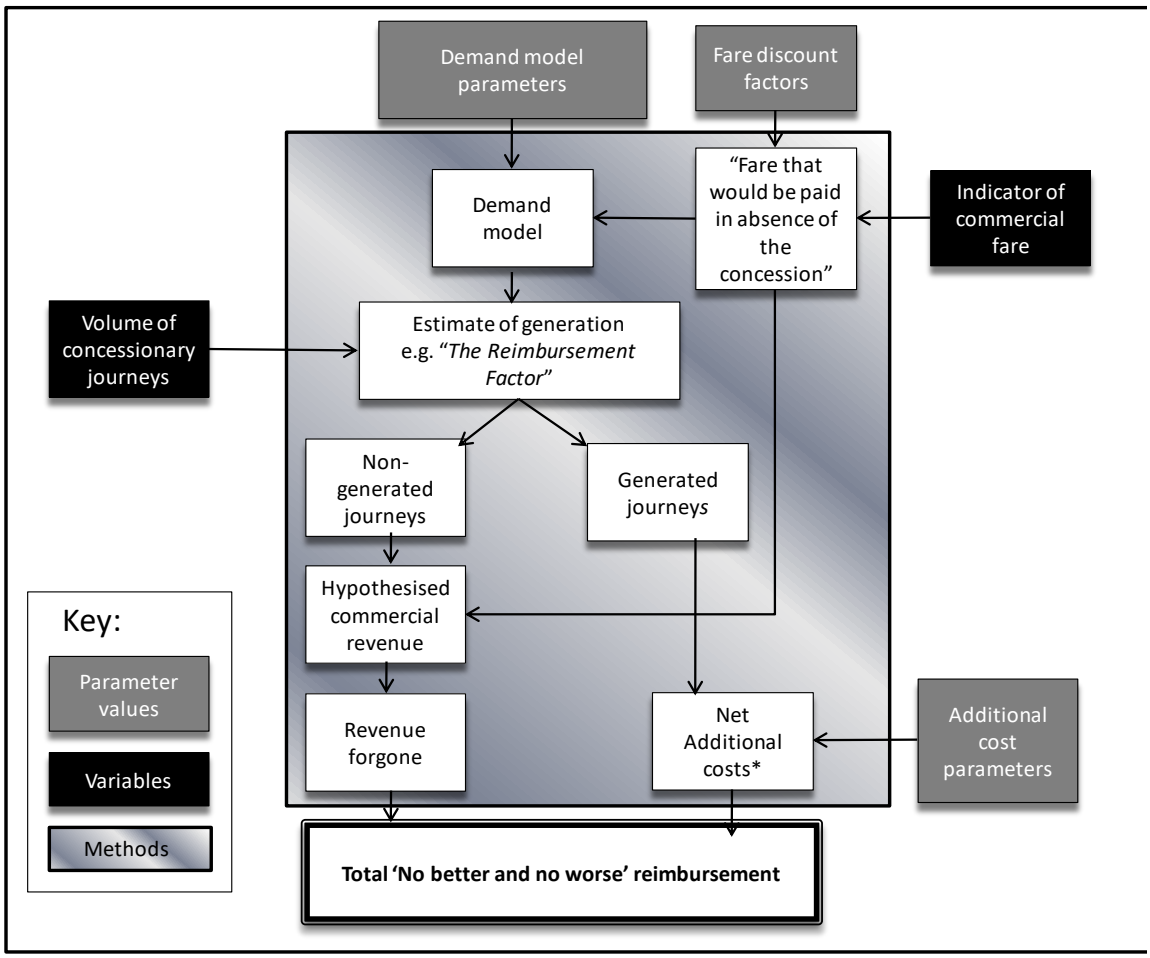
Implementing ENCTS

6.38 The principle which underpins reimbursement is that operators be "no better, no worse off" as a result of the scheme, both individually and in aggregate. This means that local authorities (technically, the "Travel Concession Authorities") should recompense operators for the revenue forgone, that is the revenue they would have received from those concessionary passengers who would otherwise have travelled and paid for a ticket in the absence of a scheme. This ticket could be a normal fare, or a discounted product provided on a commercial basis and aimed at the concession holder. In addition, the local authority pays operators any net additional costs they have incurred as a result of the scheme, for instance the costs of carrying additional generated passengers (i.e. concessionary passholders that would not have travelled in the absence of the scheme) and other costs that would not have been incurred in the absence of the concession such as scheme administration costs. The money paid to operators is therefore the sum of the revenue forgone and the additional costs.

6.39 The process for calculating reimbursement is shown in Figure 6.5. In England, each local authority calculates its own reimbursement factor - the percentage of the full fare which an

operator receives for each concession holder carried. With ENCTS it is left to each TCA to calculate and advertise its own reimbursement factor, that is, the percentage of the full fare which the operator receives. The percentage reimbursement differs widely across England and is the subject of much debate. It is, however, notable that as local authority budgets have been stretched, the reimbursement factors have fallen.[86] This suggests that budgets are a determining factor in how much money bus operators receive, which *prima facie* is a departure from the "no better, no worse off" principle.

Figure 6.5: Calculating ENCTS Reimbursement

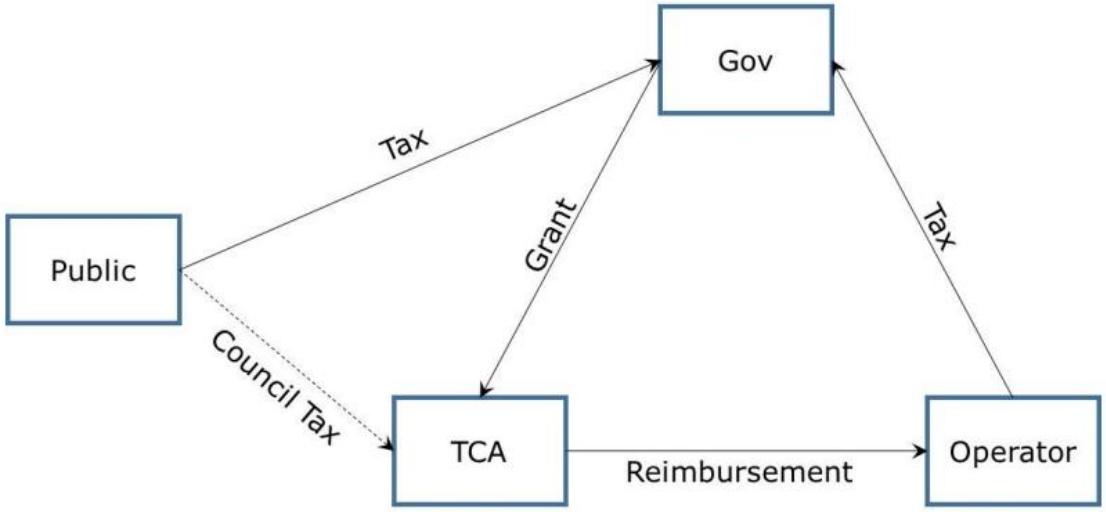


Source: Figure 3.1 DfT (2010) *Concessionary travel for older and disabled people: guidance on reimbursing bus operators (England)*

6.40 As noted, local authorities are responsible for reimbursing bus operators for journeys made by passengers with a ENCTS pass. The Government funds this reimbursement as part of the main Revenue Support Grant for local authorities. There is, however, no direct link between the monies local authorities receives and the monies that they pay out. The ENCTS funding cycle is shown in Figure 6.6.

[86] HoC (2019) 30280C, Review of Reduced and Concessionary Fares in England

Figure 6.6: ENCTS Funding Cycle



Source: HoC (2019) Review of Reduced and Concessionary Fares in England outside London

6.41 In metropolitan areas, the system is somewhat different than the rest of the country. Revenue Support Grant (RSG) is paid to the metropolitan districts, not the combined authority. However, it is the combined authority (or passenger transport executive (PTE)) which is the Travel Concession Authority and which therefore recompenses bus operators for carrying ENCTS passengers. A principal source of combined authority/PTE funding is the levy charged on its constituent districts and in theory, the ENCTS element of RSG should be 'passed through' to the combined authority. In practice, however, there is no visibility about what share of a districts RSG is associated with ENCTS. On top of this, levy setting negotiations between a combined authority/PTE and its constituent districts are determined by more overarching fiscal considerations, such as the overall trend in RSG and Council Tax income and levy payments are not broken down into components. In metropolitan areas, there is therefore a disconnect between the ENCTS money granted to the districts via RSG and the money paid out by the combined authority/PTE.

6.42 As the local authorities reimburse operators directly, they are required to make up any shortfall between the money received via RSG from other sources. In 2018, the Local Government Association (LGA) estimated that councils were spending "at least £200 million a year to subsidise the scheme" at the cost of funding other council services and discretionary travel concessions.[87] In May 2019, the House of Commons Transport Committee stated that this gap in funding was unsustainable and urged the Government to review how it finances concessionary bus passes.[88] In response, the Government disagreed that this was needed and

[87] LGA press notice, "*Nearly half of all bus routes under threat because of funding cuts to local government*", 21 June 2018

[88] Transport Committee, *Bus services in England outside London* (Ninth Report of Session 2017–19), HC1425, 22 May 2019, para 45

argued that as local funding is not ringfenced to any one use, it allows councils the flexibility to manage their finances appropriately.[89]

6.43 Regardless, during the Covid pandemic, the Government used ENCTS payments to operators as part of the package of measures to support bus operators while bus patronage fell. TCAs were requested by Government to continue to pay operators ENCTS reimbursements as if concessionary ridership had remained at pre-Covid levels and emergency legislation was put in place to enable this to be done lawfully.

The Benefits of ENCTS

6.44 Research for the Department for Transport, published in 2016, assessed the value for money of ENCTS.[90] A cost benefit analysis was undertaken that considered benefits to bus users, net effect on congestion and greenhouse gas emissions, and tax revenues to the Treasury. Importantly, ENCTS was considered to result in extra bus capacity on the road.

6.45 A sensitivity test included health benefits to pass holders and society from more active lifestyles, improvements in bus frequency due to the extra bus capacity, and the small benefit felt by passholders from more convenient cashless boarding. The extra capacity that comes about due to ENCTS provides wider benefits to all bus users, delivering a benefit beyond the original stated objectives of the scheme. The costs of the scheme were made up of the costs of reimbursing bus operators for foregone fares and additional operating costs, as well as administration costs to government.

6.46 The DfT's cost benefit analysis indicated that ENCTS represents low value for money in either their central case or sensitivity scenario. However, DfT went on to state that non-monetised benefits associated with the scheme that are reflected in wider academic and industry literature, might bring the scheme up to medium value for money. As a consequence, it was judged by DfT that ENCTS delivers low to medium value for money.

Light Rail

6.47 Local authorities (TCAs) are not required to provide concessionary travel on light rail services. As shown in Table 6.1, each TCA offers a different type of concession for light rail use, with TfGM and Tyne and Wear Passenger Transport Executive (Nexus) requiring an additional annual amount for concessionary pass holders to be able to use light rail services at no charge for the journey being made. The cost of granting these concessions is met by the respective TCA.

[89] *Government response to the Committee's Ninth Report of Session 2017–19* (First Special Report of Session 2019–20), HC 110, 18 October 2019, p3

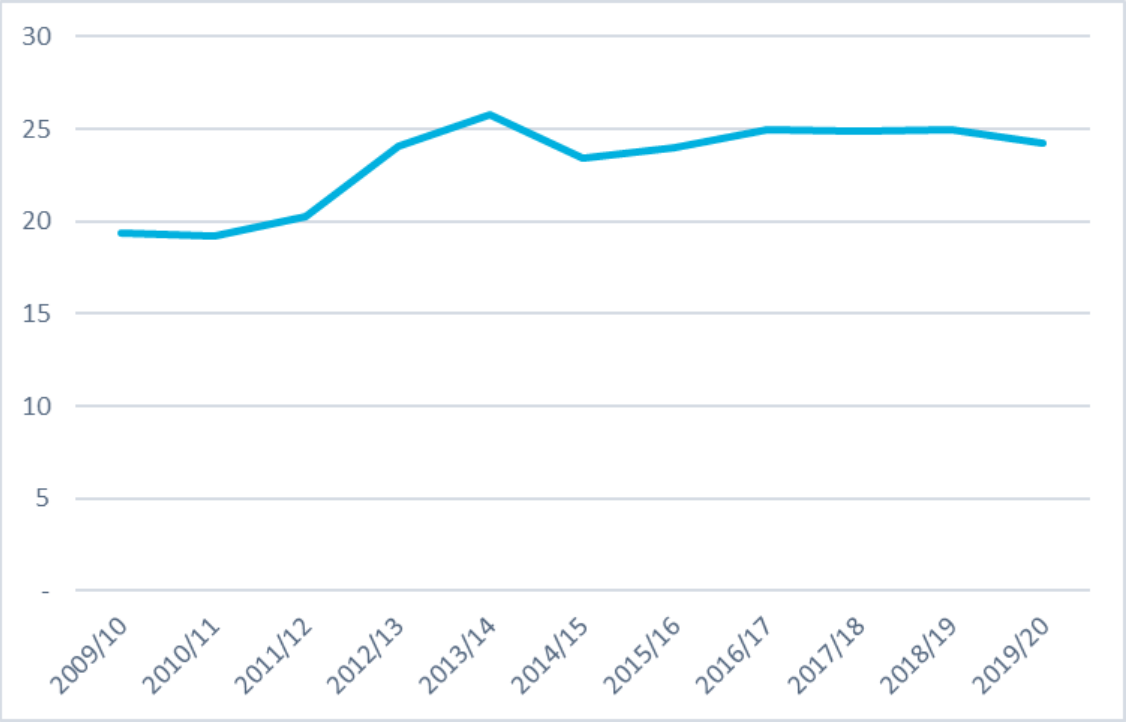
[90] DfT (2016) *Evaluation of Concessionary Bus Travel: The impacts of the free bus pass*, para 25; information on the value for money categories can be found in: DfT, *Value for Money Framework*, 2015

Table 6.1: Light Rail Concessionary Travel Offer by TCA

Travel Concession Authority	Light Rail Concession
Nottingham City Council & Nottinghamshire County Council	Free travel on Nottingham Express Transit (NET) between 9.30 and 23.00 on weekdays, and at any time during the weekend and on Bank Holidays
Transport for the West Midlands	Free travel on West Midlands Trams from 9.30 until the last service of the day
South Yorkshire Passenger Transport	Free travel on Supertram between 09.30 and 23.00 on weekdays, and at any time during the weekend and on Bank Holidays
Tyne and Wear Passenger Transport Executive (Nexus)	Unlimited travel on Metro for Tyne and Wear residents for £12 a year with a pass (£24 per year for non-Tyne and Wear residents).
Transport for Greater Manchester	Unlimited travel on Metrolink for £10 a year with a pass.
Blackpool Council and Wyre Council	Free travel on local trams between 09.30 and 23.00 on weekdays, and at any time during the weekend and on Bank Holidays

6.48 Annual light rail concessionary revenue is shown in Figure 6.7, demonstrating that concessionary revenue has been plateauing since 2014/15.

Figure 6.7: Light Rail Concessionary Revenue outside London



Source: DfT LRT0302

Summary

6.49 There is an argument the “no better, no worse off” principle means that ENCTS is a subsidy for the passholders rather than for bus operators. However, the purpose of ENCTS is to provide

benefits to bus users and other societal benefits. The DfT's 2016 cost benefit analysis shows that these benefits extend beyond those enjoyed by the pass holders by supporting services that would otherwise not run. In this respect, ENCTS's purpose is no different to that of BSOG.

6.50 The key question is not whether ENCTS is a subsidy to passengers or a subsidy to operators, but whether it is the most efficient and effective way of meeting its stated policy goals and Government's wider policy goals for local public transport. The way that ENCTS works in practice and the shortfall between the money granted to local authorities and the payments to operators suggests that it is reasonable to suggest that ENCTS reform is needed.

6.51 ENCTS does not extend to light rail, but local authorities offer concessions for travel on light rail met with costs met through their own budgets. Consideration of reform options for ENCTS would naturally lead to consideration of whether a reformed ENCTS should also include light rail services.

Supported Services

6.52 Local authorities can procure additional "socially necessary" services which would not otherwise be provided. Supported services funding is provided with the expectation it will be used in the following ways:[91]

- to improve current local bus services - for instance increasing evening or weekend frequencies, or supporting additional seasonal services in tourist areas;
- to restore lost bus routes where most needed to ensure people have access to public transport services;
- to support new bus services, or extensions to current services, to access new housing, employment opportunities, healthcare facilities, etc.

6.53 As supported services are reliant on local authority funding, which has decreased by 16 per cent since 2010/11,[92] there is concern that the current extent of the supported services is unsustainable. This concern is amplified by rising costs and there are instances across the country of local authorities ending funding for supported services altogether. By definition, supported services are deemed socially necessary so withdrawal of supported services has a social cost.

6.54 Cost pressures and reduced revenues post-Covid are also putting pressure on services which pre-Covid were commercially operated but were marginal (what we called "Other Commercial" services in paragraph 3.46). Local authorities must make a decision when an operator decides to cancel a service whether to use their own funding to maintain its operation. Past evidence suggests that in some cases bus operators are cancelling less profitable, but needed routes, then when the local authorities take over the route and issue a tender, are applying to operate the subsidised tendered route.[93] Anecdotal evidence is that some operators are increasingly reluctant to take contracts that involve revenue risk.

[91] DfT (2020), *Funding for Supported Bus Services in 20-21*

[92] Institute for Government (2022) **Local government funding in England**

[93] HoC Library (2013) *Buses: grants and subsidies*

Public Sector Revenue Support to Local Bus Services

6.55 According to the National Audit Office, in 2018/9 bus operators in England outside London had a total revenue of £3.4 billion of which fare-paying passengers generated 59% and the remaining 41% was public money comprising:

- BSOG
- ENCTS
- local authority funding for supported services

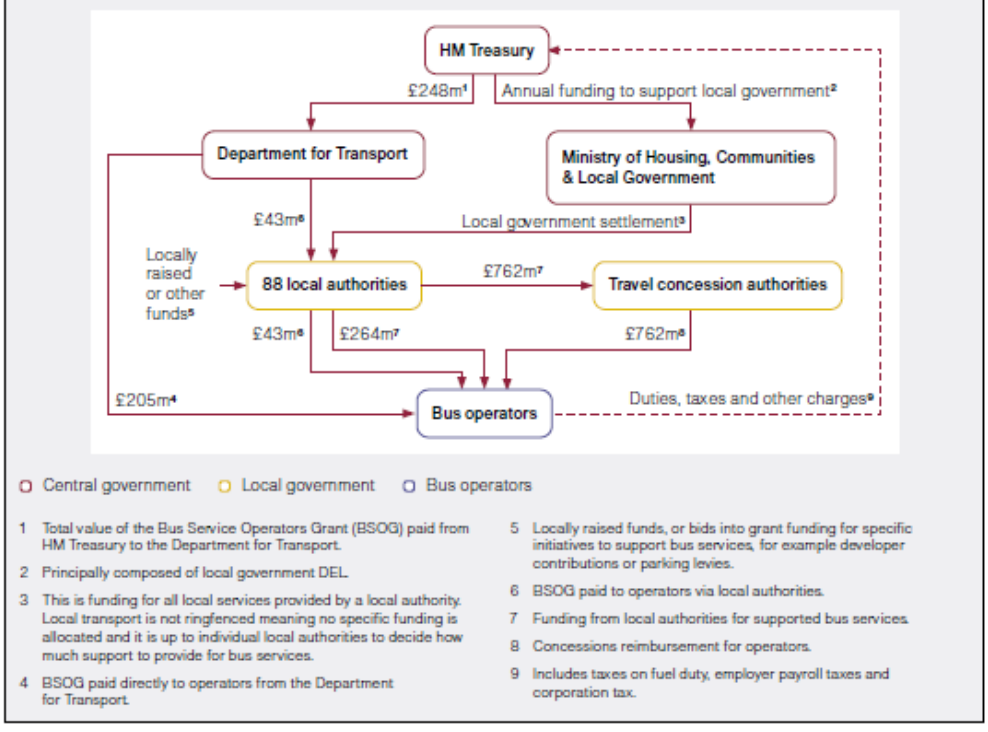
6.56 It should be expected that the proportion of revenue generated by fare paying passengers will be greatest in areas with the strongest 'core commercial' networks, which will principally be radial focussed networks into the largest towns and cities. The proportion of revenue coming from the public sector will be greatest in areas with a high proportion of journeys provided on 'other commercial' and supported services (using the service groupings defined in Chapter 3).

6.57 Reproduced as Figure 6.8 is the NAO's analysis of how the public sector funds local bus services.

Figure 6.8: Government spending on local bus services outside London

	Gross operating revenue	Of which, net government support
London	£2.02 billion	£0.8 billion
England outside London	£3.44 billion*	£1.27 billion
Total (Whole of England)	**£5.46 billion**	**£2.07 billion**

* Includes £2.04 billion of revenue generated through fare paying passengers and excludes £129 million of revenue retained by local authorities on tendered services.



1 Total value of the Bus Service Operators Grant (BSOG) paid from HM Treasury to the Department for Transport.
2 Principally composed of local government DEL.
3 This is funding for all local services provided by a local authority. Local transport is not ringfenced meaning no specific funding is allocated and it is up to individual local authorities to decide how much support to provide for bus services.
4 BSOG paid directly to operators from the Department for Transport.
5 Locally raised funds, or bids into grant funding for specific initiatives to support bus services, for example developer contributions or parking levies.
6 BSOG paid to operators via local authorities.
7 Funding from local authorities for supported bus services.
8 Concessions reimbursement for operators.
9 Includes taxes on fuel duty, employer payroll taxes and corporation tax.

Notes
1 Figures may not sum due to rounding.
2 Locally raised funds are generated primarily through local council taxes and business rates that are not sent to HM Treasury.
3 The Department for Transport also provides ad hoc capital funding for local bus services (not shown in figure above). These funds are usually allocated through bidding processes (see paragraphs 3.12 to 3.16).
4 The funding flows do not reflect how funding works in London where bus services are franchised.

Source: Figure 9, NAO (2020) *Improving local bus services in England outside London* HC 577

6.58 Between 2008/09 and 2018/19, outside London the amount spent on BSOG fell from £310m to the £248m noted in Figure 6.8, a fall of £62m (with all figures expressed in nominal prices). Over the same period the sum spent on ENCTS was more or less constant at just around £750m, although when expressed in 2020/21 prices this represents a £130m reduction in real terms. Outside London, local authorities' payments for tendered bus services fell from £383m to £264m.[94]

6.59 Overall, financial support for local bus services outside London has been fallen in real terms. A falling level of support will be one factor that has contributed to the decline in local bus services over the same period. In its October 2020 report the NAO notes "that while the Department [for Transport] collected a lot of data on buses, it did not routinely bring data together to monitor how government interventions impacted [financial] sustainability across the bus system. We do note some gaps in government's knowledge, for example on impact of reduced services on communities, particularly supported services".[95] While *Bus Back Better* sets out an ambition to return bus patronage to pre-Covid levels before further growth, it is not clear that a continuation of the pre-Covid funding levels would allow this ambition to be met.

6.60 Not included in the NAO's figures are the payments to bus operators made by local education authorities (LEAs) to pay for home to school transport. According to a report commissioned by the Local Government Association, £1.08 billion was spent on home to school transport in 2017/18.[96] Not all of this is spent on bus services, but for many bus operators providing schools services is an integral part of their business model. Interestingly, the same report notes that one of the upward pressures on local education authority budgets is the withdrawal of commercially provided bus journeys requiring LEAs to step in and provide alternative provision.

6.61 Also not included in the NAO's figures is the public sector's capital spend on the provision, maintenance and renewal of bus stops, bus shelters, bus lanes and other bus priorities measures, and bus stations, as well as revenue spend on provision of information, publicity and the like. Each of these measures supports bus patronage.

Other Bus Funding

Bus Service Improvement Plans

6.62 The National Bus Strategy sets a requirement that each local transport authority in England should produce a Bus Service Improvement Plan (BSIP). The intention is that BSIPs will be updated annually. The first tranche of BSIPs were completed by local transport authorities in October 2021. The scope of BSIPs is that they:

- Be developed by LTAs in collaboration with local bus operators, community transport bodies and local people.
- Cover LTAs' areas fully including all of the local bus services within them.

[94] DfT Bus Statistic BUS0502

[95] Page 10, NAO (2020) *Improving local bus services in England outside London* HC 577

[96] Swords B., Parish N. and Kulawik K. (2019) *Understanding the drivers for rising demand and associated costs for home-to-school transport*

- Account for the differing needs of any parts of their area (e.g., distinguish between urban and rural elements).
- Focus on delivering the bus network that LTAs (in consultation with operators) want to see, including how to address the under-provision and overprovision of bus services and how to integrate bus with other modes.
- Set out how they will achieve the objectives in the strategy with a detailed plan for delivery.
- Be updated annually and be reflected in the authority's Local Transport Plan.
- Influence the share of the £3bn of additional Central Government funding each LTA receives.

6.63 The Department for Transport's guidance states that BSIPs are expected to:[97]

- Set targets for journey time and reliability improvements (for the LTA as a whole and in each of the largest cities and towns in its area) – progress to be reported publicly at least twice a year.
- Identify where bus priority measures are most needed, including consideration of Bus Rapid Transit routes to transform key corridors and of how traffic management can be improved to benefit buses.
- Identify the pressures on the road network, mapping air quality issues and then setting carbon reduction targets, which improved bus services could address, and set out actions.
- Drive improvements for passengers by:
  - Setting targets for passenger growth and customer satisfaction (progress to be reported publicly at least twice a year).
  - Setting out plans for fares, ticketing and multi-modal integration. Initially, the DfT expects LTAs and bus operators to develop plans to enable multi-operator ticketing, where plans do not already exist. Over time, DfT expects LTAs to work across several transport modes towards enabling a multi-modal ticketing scheme.
  - Considering the impact of quality roadside infrastructure (e.g., bus stops and shelters) on passenger safety, security and accessibility.
  - Considering how a coherent and integrated network should serve schools, healthcare, social care, employment and other services.
  - Considering the views of local people.
  - Committing to a Bus Passenger Charter (BPC) that sets out what passengers can expect from bus operators delivering local bus services. BPCs should include commitments on the accessibility of bus services.

6.64 Bus Service Improvement Plans also need to explain:

- How current services perform against the expectations listed above.
- How the needed improvements will be delivered through the EP/franchising schemes and the LTAs' and operators' investment plans.
- The financial support that the LTA is providing to public bus services, listing the numbers of routes and total route mileage supported.
- How traffic management and investment will be used to prioritise buses. In mayoral combined authorities this will include the extent of the MCA's role over the regional Key Route Network and how that is utilised to prioritise bus services.

[97] Department for Transport (2021) *National Bus Strategy: Bus Service Improvement Plans: Guidance to Local Authorities and Bus Operators*

6.65 At the beginning of April 2022, the DfT announced that 31 LTAs had been awarded BSIP funding with a combined allocation of £1.08bn. When making its funding announcement, DfT said that "the successful areas have been chosen because of their ambition to repeat the success achieved in London … As the government stated in last year's national bus strategy, … areas not showing sufficient ambition, including for improvements to bus priority, would not be funded", with the clear inference that the 48 LTAs that did not receive funding were in the Government's eyes insufficiently ambitious.[98] Analysis by the Campaign for Better Transport estimated that the total BSIP funds awarded by DfT were 24% of the total that LTAs applied for.[99]

City Region Sustainable Transport Settlement

6.66 In April 2022 each mayoral combined authority received a five-year capital allocation as part of the City Regional Sustainable Transport Settlement (CRSTS). The Government's intention is that this is the first of a series of five-year settlements. A five-year settlement gives the recipient combined authorities greater certainty of future funding levels and greater flexibility in how they plan and then implement their capital programmes. As well as fundings for new capital investment, each CRSTS also includes funds that were previously allocated to combined authorities as part of the Integrated Transport Block and Highways Maintenance Block.

6.67 As part of the award, CRSTS recipients were expected to raise at least 15% to 20% local contributions for capital enhancements over and above the money granted by government.

6.68 Across the recipient authorities, CRSTS is being used for capital investment to make bus more attractive, for example through additional bus priority and the (re-)development of bus stations and multi-modal interchanges. A number of CRSTS recipient authorities are also in receipt of BSIP funding.

Zero Emission Bus Regional Areas

6.69 The Department for Transport launched its Zero Emissions Bus Regional Areas (ZEBRA) scheme in March 2021. While pre-dating the Government's July 2021 Transport Decarbonisation Plan, the ZEBRA initiative can be seen as integral to the overall approach to reduce the carbon impacts of the transport sector as part of the commitment to reach net zero by 2050.

6.70 Initially £120m was initially allocated to the scheme with a further £150m allocated in the October 2021 Spending Review, making a total of £270m. This intention this helps provide for upwards of 1,000 Zero Emission Buses (ZEBs), supporting the Government's February 2020 commitment to introduce 4,000 new ZEBs in the UK by 2025, a commitment repeated in the National Bus Strategy. Local transport authorities outside London were invited to express interest in a proportion of the available funding.

6.71 The purpose of the ZEBRA scheme is to overcome barriers to introducing ZEBs. The capital cost of introducing ZEBs, as well as associated infrastructure (e.g., charging ports), is currently considered prohibitive to local authorities and operators facing enhanced financial constraints in the context of the Covid-19 pandemic. Many local authorities and smaller operators also have little to no experience of running ZEBs on their bus networks.

[98] DfT (2022) **Cheaper and better buses in £7 billion package to level up transport outside London**

[99] Campaign for Better Transport (2022) **Funding local bus services in England**

6.72 Although maintenance and running costs are generally lower for ZEBs than for diesel buses, the need to eventually replace batteries for electric vehicles amounts to a further significant capital cost several years after first vehicle delivery.

6.73 Logistical and operational considerations, such as the need to develop robust supply chains for ZEBs, and recharge vehicles at intervals that allow for seamless operation, are also challenging.

6.74 Altogether this represents a high barrier to achieving the necessary adoption to keep strategic national objectives, such as improving air quality and reducing carbon emissions from transport, on track.

6.75 By introducing ZEB infrastructure and facilitating increased expertise in local authorities and the private sector, the ZEBRA scheme could help to mitigate these issues. Through the scheme DfT will contribute up to 75% of the cost difference between a zero-emission bus and a standard conventional diesel bus equivalent of the same total passenger capacity. It will also contribute up to 75% of the capital expenditure incurred as a result of its purchase and installation. These could be:

- cost of charging unit or refuelling stations;
- electrical or other power components;
- civil engineering works;
- labour costs (for installation);
- hardware costs;
- capital costs of developing associated software systems;
- surveys at the point of procuring the infrastructure provided they can be capitalised;
- upgrades to the energy grid.

6.76 Integral to the ZEBRA scheme are local authority and bus operator contributions. Given the existing difficulties of increasing the proportion of ZEBs in bus fleets, a financially strong bus sector is essential to support the aims of ZEBRA and ensure the scheme can succeed in encouraging an acceleration in ZEB adoption.

Light Rail

6.77 While the six English light rail systems outside London each have had unique funding arrangements, the capital costs of each light rail system have been substantially funded through Exchequer contributions. With the adoption of the CRSTS process, the indications are that Government sees this as a route for funding new networks, expansions of existing networks and renewal projects. However, it is likely that given the scale of any future networks or expansion of existing networks, that additional Exchequer funding may be required.

6.78 As set out in Chapter 5, pre-Covid and other than Tyne & Wear Metro, English light rail systems operated without Government grant support.

7 Options for Funding Local Public Transport

Introduction

7.1 It is clear that reform of how local public transport is funded is needed. The current system is complex and there is a question about how well targeted it is at meeting both Government's and local authorities' objectives for transport in general and local public transport in particular. The 'one size fits all' approach for bus funding outside London no longer seems appropriate in what is a diverse market. There are questions as whether the scale of revenue and capital support and how that funding is provided matches Government's ambitions for local public transport.

7.2 Throughout the pandemic Government provided emergency financial support to local public transport – that is, support for both local bus services and light rail. During periods of lockdown and Covid-related restrictions, this support has helped maintain services. As society moved towards a new post-Covid normal, the Government's financial support allowed services to operate at close to pre-pandemic levels in advance of demand returning. It has helped moderate fare increases. It now looks as if public patronage will not recover fully to pre-pandemic levels, at least in the short term, but without this support there would have been a downward spiral of service cuts and fares increases and falls in patronage, which would have led to further cuts and further falls in patronage.

7.3 In *Bus Back Better*, Government sets out its vision for more frequent 'turn-up-and-go' bus services, faster and more reliable services, cheaper fares, simpler and easier to understand networks, routes being the same in the evenings and at weekends as during weekdays and greener buses. It wants to see bus patronage return to pre-Covid levels and then increase. It has set these goals because it recognises the economic and societal benefits that bus services provide, and that growing bus patronage is a cost-effective way of increasing these benefits.

7.4 The pandemic-related support Government has provided means local public transport is in a much better place than it would have been otherwise, but further declines in levels of service and patronage would be a severe setback to the Government's *Bus Back Better* ambitions. The question now is how can future financial support to local public transport build on the Government's substantial investment by first stabilising the local public transport market and then creating the platform for its future contribution to a wide range of societal goals. Consideration also needs to be given to how funding is provided as well as the scale of the funding needed to meet the Government's ambitions. While reform is needed, this will take time to design and implement. This means that whatever is decided for the future, additional short-term support will be needed if a further shock to local public transport is to be avoided.

7.5 Over the last three decades, Government and local authorities have invested substantial capital sums in developing and then extending light rail systems. The economic and societal benefits that such systems have brought are wide-ranging and significant. Post Covid, the

question to be addressed is how does society continue to gain the maximum possible benefit from this past investment.

7.6 The Government has committed to consult on reform options for Bus Service Operators Grant (BSOG), but as society adjusts to a post-Covid world we suggest that the opportunity is potentially greater than this. The way the English National Concessionary Travel Scheme (ENCTS) was operated before the pandemic and then during the pandemic means that it has moved away from the goals of providing benefits to those of pensionable age and the registered disabled, to be part of the wider package of financial support to the bus sector. There is an opportunity to consider more wholesale reform.

An Immediate Need

7.7 Reform of public sector bus funding is needed, but any reform will take time. How long will be a function of the complexity of the reform, with more complex options taking longer as these would need to be designed, subject to consultation and then implemented, which could require new legislation, regulations and systems. Simpler reform options will take less time and incremental changes to the current system would be the quickest thing to do, although such an approach may not address the root problems with the current funding regime and only delay the time when more fundamental reform is needed.

7.8 In the interim, Government's current intention is that the current tranche of Government emergency funding ceases at the end of March 2023. Should this happen, a combination of patronage being lower than pre-Covid and increased bus operating costs would be expected to lead to service cutbacks and further patronage decline. This outturn would be a severe setback to the ambitions set out in *Bus Back Better*, which is for patronage to return to pre-Covid levels and then for patronage to grow. The question is what is better value – to provide additional revenue support now to maintain service levels and hence patronage, or to invest in capital schemes later with the goal of making bus services more attractive to users and thereby attract greater patronage.

7.9 Experience is that once patronage has been lost, it is hard to get back. Lower patronage would also undermine the cost benefit case for capital enhancements to promote bus use that have already been made, as well as those planned for the future, for example through Bus Service Improvement Plans support. If Government remains committed to *Bus Back Better*, there is an immediate need for further short-term funding to act as a bridge until more comprehensive funding reform is implemented.

7.10 Taking the goal of maintaining the scale of the pre-Covid network (as measured by bus kilometres), an assessment has been made of how much additional money would be needed to maintain bus networks in metropolitan areas. Assuming that tendered bus service budgets, BSOG and ENCTS payments are maintained at pre-Covid levels, our assessment is that an additional £70-140m a year would be needed in metropolitan areas simply for bus operators to break even.

7.11 The reason that this is presented as a range is that there is uncertainty around the extent to which revenue recovers to pre-Covid levels, what are the cost increases per bus kilometre due to higher fuel and wage costs and other cost increases, as well as the pre-Covid margins made by operators. The upper end of the range assumes revenue stabilises at 90% of pre-Covid levels and costs increase at the December 2022 rate of the Retail Price Index (RPI). It also has a high assumption on operator margin. The lower value assumes revenues returning to 95% of pre-Covid levels, a 10% increase in unit operating costs and a lower operator margin

assumption. Should tendered services budgets, BSOG and ENCTS payments fall in aggregate, then the support needed would increase and crudely a £10m fall in existing budgets would need a £10m increase in the stop-gap funding requirement if the network *status quo* is to be maintained.

7.12 This analysis also assumes that operators make no margin, but such a position is not sustainable. Reasonable margins are needed to help fund investment, for instance in new vehicles including zero emission buses. Without the prospect of margins, operators would exit from the market. However, with a no margin settlement operators would be expected seek a margin by driving down the costs of their commercially provided networks by more than the fare loss that would be incurred, for instance by curtailing relatively lightly used early morning or late evening services, as well as reducing frequencies and pushing up fares across their networks. There would be upward pressures on the prices of tendered serves and the prices of other services provided by operators (such as schools' services) would also be expected to increase.

7.13 Ultimately, in a tight fiscal environment it is for Government to decide its priorities for how its revenue budget is spent. In this regard we note that:

- Maintaining current bus networks and containing any future fares increases would appear a necessary precursor to meeting *Bus Back Better* ambitions
- Compared with the alternative situation of lower levels of bus provision and/or higher fares, the benefits of further support are immediate. This contrasts with capital investment, which can take a number of years to come to fruition before benefits accrue over the life of the investment. Revenue support provides benefits now, while capital investment provides benefits over years to come.

Short Term Options

7.14 The ways that Government can offer further revenue support in the short term are:

- Covid Bus Recovery Grant – extend the scheme into FY 2023/24 and depending on reform timescales, potentially longer.
- BSOG – increase the rate of grant awarded.
- Provide additional funding to local authorities to maintain or even increase the rate of ENCTS reimbursement that operators receive.
- Supported services budgets – grant local transport authorities more money to buy further supported services.

7.15 These options are summarised in **Error! Reference source not found.**. They could be implemented singularly or in combination. Importantly, none of them require any changes to established systems or processes which means that they can be implemented very quickly.

7.16 With respect to ENCTS, a further short-term reform would be to address the anomaly in metropolitan areas where the local authorities receive ENCTS-related payments as part of Revenue Support Grant (RSG), but it is the combined authorities that pay the bus operators. As set out in Chapter 6, there is no link between the money that the local authority receives as part of RSG for ENCTS and the levy paid to their combined authority. The reform would be to grant the ENCTS element of RSG directly to combined authorities.

Table 7.1: Short Term Funding Options

Option	Option Description	Potential Impacts	Next Steps/Requirements
Extension of Covid Bus Recovery Grant	• Extension of the existing Covid Bus Recovery Grant in its current form	• Unless the extension is longer than six months, this still creates uncertainty for bus operators and local authorities	• Announce extension ahead of March 2023, with longer funding timeline and clear next steps for future funding
BSOG minor modification	• Increase the rate of BSOG	• Provides an additional source of funding to bus operators which to incentivise them to retain service levels	• Determine and announce increased rate, to provide certainty to bus operators in the short term
ENCTS minor modification	• Increase the funding local authorities receive • Direct payments to CAs rather than via districts	• Reduces the funding gap between money from Government and money paid out created by the current ENCTS reimbursement system, but effect could be diluted by lack of ringfencing of ENCTS share of RSG • Minimises complexity of ENCTS payments	• Determine and announce increase to provide certainty in the short term • Determine payment calculation to CAs
Increase supported services budgets	• Grant local transport authorities more money to buy further supported services	• Local authorities can provide funding to more socially needed routes, but effect could be diluted by lack of ringfencing • Less competitive routes may be strategically cut by operators seeking a subsidy	• Determine and announce increase in budgets, to provide certainty to bus operators and local authorities in the short term

The Goals for Local Public Transport

7.17 When thinking about the goals for local public transport it is helpful to first consider the *outcomes* that are desired and then the *outputs* that will contribute to meeting these outcomes. In this context, the outcomes that local public transport delivers are the widespread health, environmental, social and community and economic benefits we identified in Chapter 2. Underpinning the *Bus Back Better* goal to increase bus patronage is the simple relationship that greater the use of local public transport, the greater are these benefits.

7.18 Local public transport's outputs are the services that it provides: the routes that are operated, the frequency they operate, the hours of the day and the days of the week that services are provided, as well as the fares that are charged. These outputs extend to the quality of the service, which includes the vehicles themselves, facilities at stops, information provided

before and during a journey and how payments are made, amongst others. Public sector support 'buys' outputs that would otherwise not be provided and through greater patronage than would otherwise be the case, this leads to better outcomes. Public sector support can be in the form of capital investment (bus stations, bus lanes, light rail systems, etc.) or can be revenue support that provides additional services and/or lower fares that would otherwise be the case. Revenue and capital support can also be used to incentivise private sector investment, for example in new 'green' vehicles or to adopt new payment mechanisms, all with the goal of securing better outcomes.

7.19 Importantly, because local public transport leads to multiple beneficial outcomes there is no single way that would maximise the contribution to each outcome. For instance, if the goal is to maximise local public transport's contribution to social and community benefits, then the desired output would be to have a local public transport that has the widest possible geographic coverage operating for as long as possible during the day and across the week. However, inevitable budgetary constraints would suggest that this may mean that some places receive a lower frequency service than would be the case if a purely commercial network were provided, albeit with other places having services that would not be otherwise provided. In contrast, if the goal was to maximise economic outcomes, then the focus would be on maximising patronage, which in turn would suggest a focus on providing services to town and city centres where the patronage potential is highest. Budget constraints would suggest that this would be at the expense of providing some socially necessary services.

7.20 Ultimately a balance has to be struck between securing different outcomes, which in turn means a balance needs to be struck between using local public transport revenue funding to:

- Secure the maximum spatial and temporal extent of the local public transport network
- Maximise patronage

7.21 Importantly this balance need not be the same in all parts of the country, or even within all parts of a local transport authority area. In some places, the goal might be to maximise network coverage to maximise social benefits, while in others the goal may be to maximise the number of people travelling, say into a town or city centre. The question is which bodies are best placed to make decisions on how the available funding is best directed.

7.22 There is also a third factor to consider, which is how revenue funding can be used to change the way that local public transport is provided, for instance to accelerate the decarbonisation of the bus fleet through the faster adoption of electric vehicles.

Design Considerations

7.23 Before moving on to considering options for reform, it is helpful to set out a number of design considerations:

- To allow operators to form their investment strategies and local authorities to plan, there needs to be *certainty* on the scale of future funding over a number of future years. For capital funding for the national rail network, strategic road network and most recently, combined authority investment programmes, a five-year funding cycle has been adopted and this is a useful precedent.
- There needs to be the ability to *incentivise change* in the bus industry. The most pressing need in this regard is the need to decarbonise the bus fleet and move as quickly as possible to zero emission buses.

- Wherever possible, decisions on how to allocate funds to different local public transport services should be taken at a local level. As with capital funding, wherever possible there should be *local decision making*.
- There needs to be recognition that in some areas there will be *bus franchising* and this will lead to different cost structures for the public sector and private operators.
- The system should be *simple to administer* and not burden local authorities or operators with unnecessary costs, while also being transparent and allowing assurance that public funds are being used to the best effect.
- Consideration needs to be given to operators' *cash flow*. Currently BSOG payments are made quarterly in advance based on annual audited estimates of bus kilometres. Retrospective funding based on outturn performance (i.e. after costs have been incurred) would be counter to the goals of having network stability as a pre-cursor to future network expansion. It could also form a barrier to new entrants to the market, particularly from the Small and Medium Enterprise (SME) sector.
- There will be a need for a period of *transition* between support arrangements. Regardless of the system that is eventually adopted there will be a need for a transition period to allow operators to adjust and local authorities to evolve their approaches to supported services. The length of this will be a function of the complexity of the reform, with more complex options requiring a longer transition period. It will be important to avoid further shocks so soon after Covid, which suggests that transition periods may need to be longer than would otherwise have been the case.

Strategic Choices for Bus

Reforming BSOG

7.24 Before setting out reform options it is informative to explore the strategic choices that are available. Currently the primary mechanism for calculating BSOG is related to the amount of fuel that is used but looking ahead, this approach in untenable. In the short-term it is inconsistent with the goal of decarbonising the bus fleet and the medium term it would mean that fewer and fewer services are eligible for grant. Already electric buses attract per kilometre funding support and to maintain support in the absence of further and more fundamental reform, it should be expected that the subsidy regime will *de facto* move to a per bus kilometre regime.

7.25 Previously the Commission for Integrated Transport and Greener Journeys have expressed a preference for a per passenger subsidy payment. Their rationale for this is that it would be a better way of maximising patronage.

7.26 Two possible strategic choices therefore seem to be to reform BSOG to be:

- per vehicle kilometre payments; or
- per passenger payments

7.27 Generally, supported service and what we have called in Chapter 3 "other commercial services" carry relatively few passengers per vehicle kilometre. This is the very reason that they are in the supported or other commercial group – for supported services their patronage and hence revenue is insufficient to cover operating costs or to provide a commercial return and the other commercial services operate at the margin. There will also be some routes in this category that are relatively well used, but have high operating costs, for instance because they are long routes. Either way, supported and other commercial services are characterised by relatively low passenger numbers per bus kilometre. In contrast, generally commercial

services have a higher number of passengers per bus kilometre. Per vehicle kilometre payments will be of greater relative benefit to supported and other commercial services. Per passenger payments will generally be better for commercial services. The consequence is that the different strategic approaches will lead to different outcomes.

7.28 Different possible outcomes then raise the potential of a third approach, which is:

- Allocate support using a mixture of per vehicle kilometre and per passenger mechanisms.

7.29 The balance of commercial, other commercial and supported services is different across local authority areas. To illustrate the consequences of these broad strategic consequences we have taken published DfT bus statistics for 2018/19 (as the last full year unaffected by Covid restrictions) and considered what would be the distribution of funding:

- should all funding be allocated on a per vehicle kilometre basis
- should all funding be allocated on a per passenger basis

7.30 In each case, we have allocated 100 units of funding, that is what we consider the percentage share of funding without considering what the total quantum of available funding should be. Also, to illustrate the distribution of funding we have grouped each local authority area into one of four classifications. These are based on ONS classifications and are used within the DfT bus statistics data set:

- Metropolitan areas – Greater Manchester, Merseyside, South Yorkshire, Tyne & Wear, West Midlands, West Yorkshire
- Other predominantly urban areas – examples include the local authorities of Middlesbrough, Warrington, York, Nottingham and Brighton
- Urban with significantly rural areas – examples are Derbyshire, Essex and Northamptonshire
- Largely or mainly rural – examples are Northumberland, Cambridgeshire and Devon

7.31 In the following figures, we show the distribution of funding on a per vehicle kilometre and per passenger basis, as well as the difference between per vehicle kilometre and per passenger allocations:

- Figure 7.1 shows percentage shares of each local authority when revenue support is allocated by bus kilometre[100]
- In Figure 7.2, the allocation is by bus passengers. For this analysis, we have used total bus passengers. Noting that carriage of concession passengers is funded via ENCTS, we could have used fare-paying passengers as the variable but doing so would make no material impact on the conclusions that are drawn from the analysis
- Figure 7.3 shows the difference between the two strategic approaches. What this shows is that:

[100] Looking at pre-pandemic data, DfT's Bus Statistics suggest that whilst BSOG is allocated pre-dominantly on the basis of fuel used, there is very little difference between the average BSOG per bus kilometre in metropolitan areas and non-metropolitan areas (that is the sum of other predominantly urban areas, urban with significantly rural areas and largely or mainly rural areas). While these averages will mask differences between local authority areas and differences between non-metropolitan areas, it is not considered that in itself a shift from a fuel-based allocation to a per kilometre allocation would lead to material changes in the allocation that different types of area. Available DfT statistics do not allow this point to be investigated further.

- Allocation by bus passenger numbers would result in metropolitan areas getting a greater share of the total allocation
- For other predominantly urban areas, the picture is mixed with some getting more from the per passenger allocation and some getting less, with those getting more outnumbering those which get less
- For urban with significant rural areas and predominantly rural areas, the per passenger allocation method almost universally gives a lower share

7.32 For the avoidance of doubt, we are not advocating either a per bus kilometre or per bus passenger allocation. Rather, what we are seeking do is illustrate that the two strategic approaches result in quite different allocations and, as a consequence, these would lead to different levels of bus service and hence different outcomes – the method of allocation is not policy neutral. When thinking about reforming bus funding the starting point is to set out what it is that is wanted to be achieved and then consider how alternative options meet these goals.

7.33 We have also looked at allocating revenue support using a combination of bus kilometres and bus patronage.[101] Such approaches would inherently recognise that different allocation methods will support different network configurations and so different outcomes. Shown in Table 7.2 is the aggregate allocation to the four different local authority classifications.

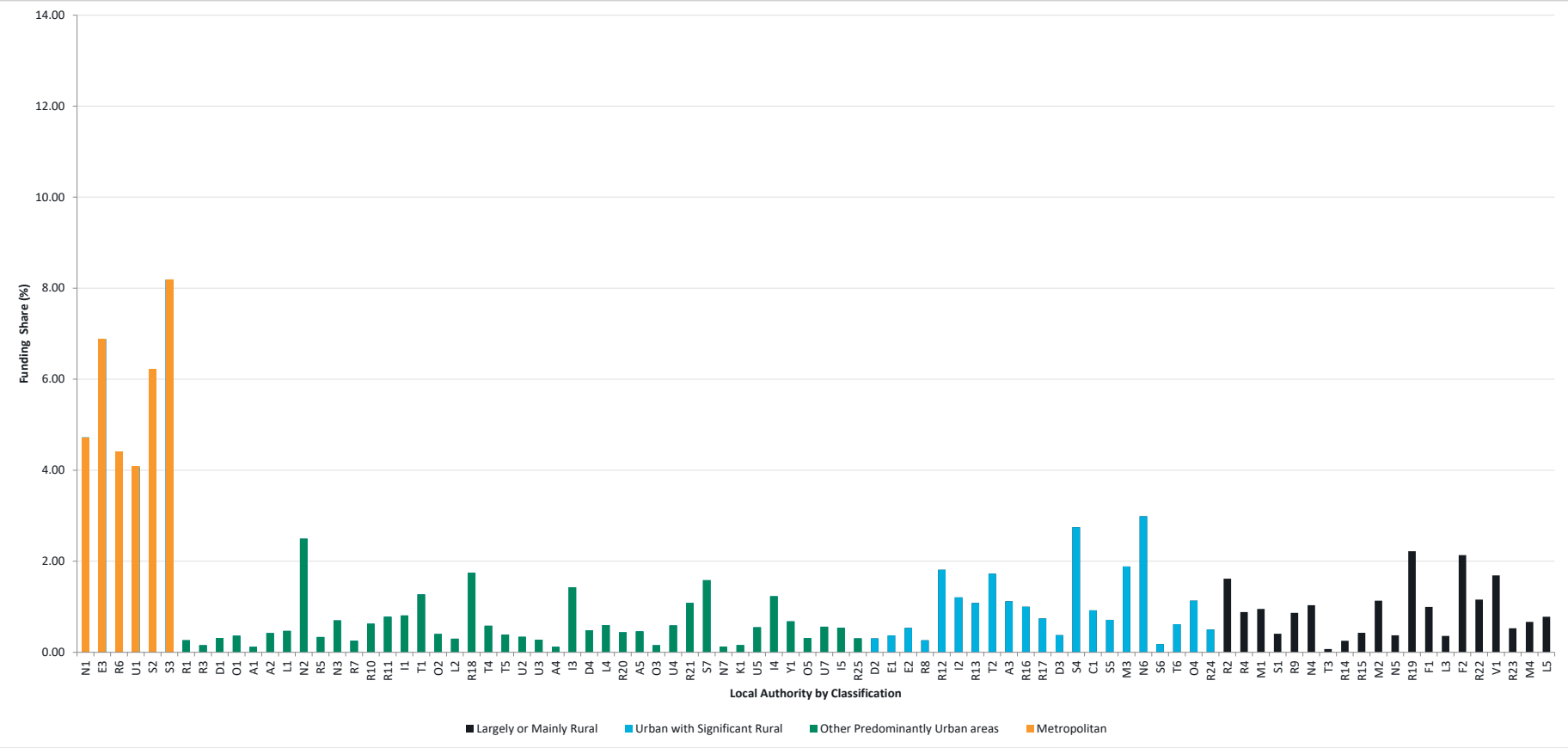
Table 7.2: Percentage allocation of funds using different combinations of bus kilometres and bus patronage

Local Authority Classification	100% Vehicle Kilometres	75% Vehicle Kilometres 25% Passenger Journeys	50% Vehicle Kilometres 50% Passenger Journeys	25% Vehicle Kilometres 75% Passenger Journeys	100% Passenger Journeys
Metropolitan	34	37	39	41	43
Other Predominantly Urban areas	25	26	27	28	29
Urban with Significant Rural	22	21	19	18	16
Largely or Mainly Rural	19	17	15	14	12

7.34 As shown in Table 7.2, the more rural areas receive more funding on a bus kilometre allocation, whereas Metropolitan areas would benefit on an allocation by bus passengers.

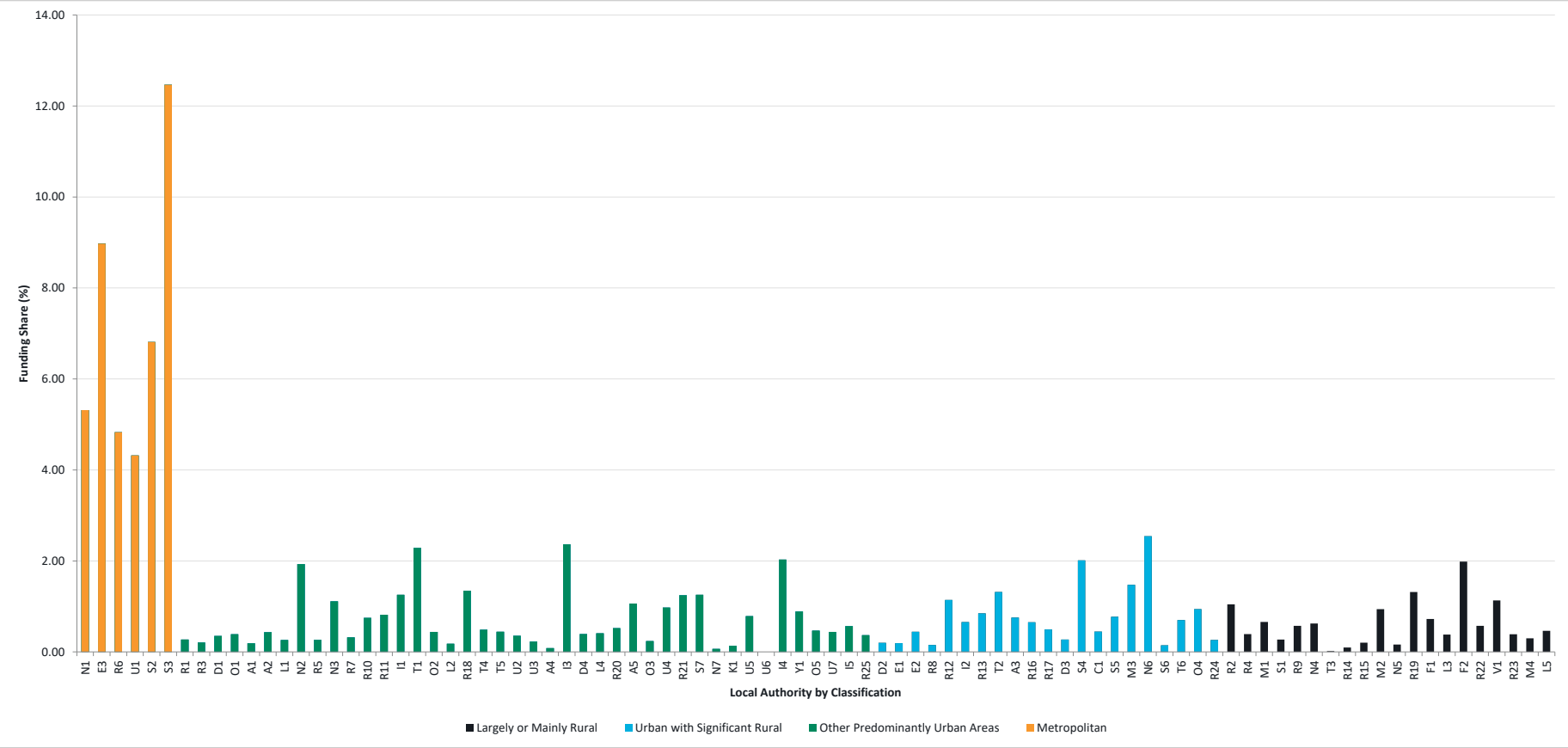
[101] A further option would be to look at allocation methods based on bus passenger kilometres, which is a combination of bus passengers and how far they travel. In such a system the support received would be a function of how many passengers use bus and how far they travel. While ostensibly an attractive measure, the challenge is to derive a suitable disaggregated measure of bus passenger kilometres. Bus operators do not know this and it cannot be measured directly – the way fares and ticketing works in the UK is that in the main while bus operators have data on where a passenger boards a bus they do not have data on where they get off. Bus passenger kilometre figures in national statistics are derived from boarding numbers and highly spatially aggregate measures of average trip length derived from the National Travel Survey and they would not be a suitable basis for an allocation mechanism.

Figure 7.1: Allocating revenue support by bus kilometres



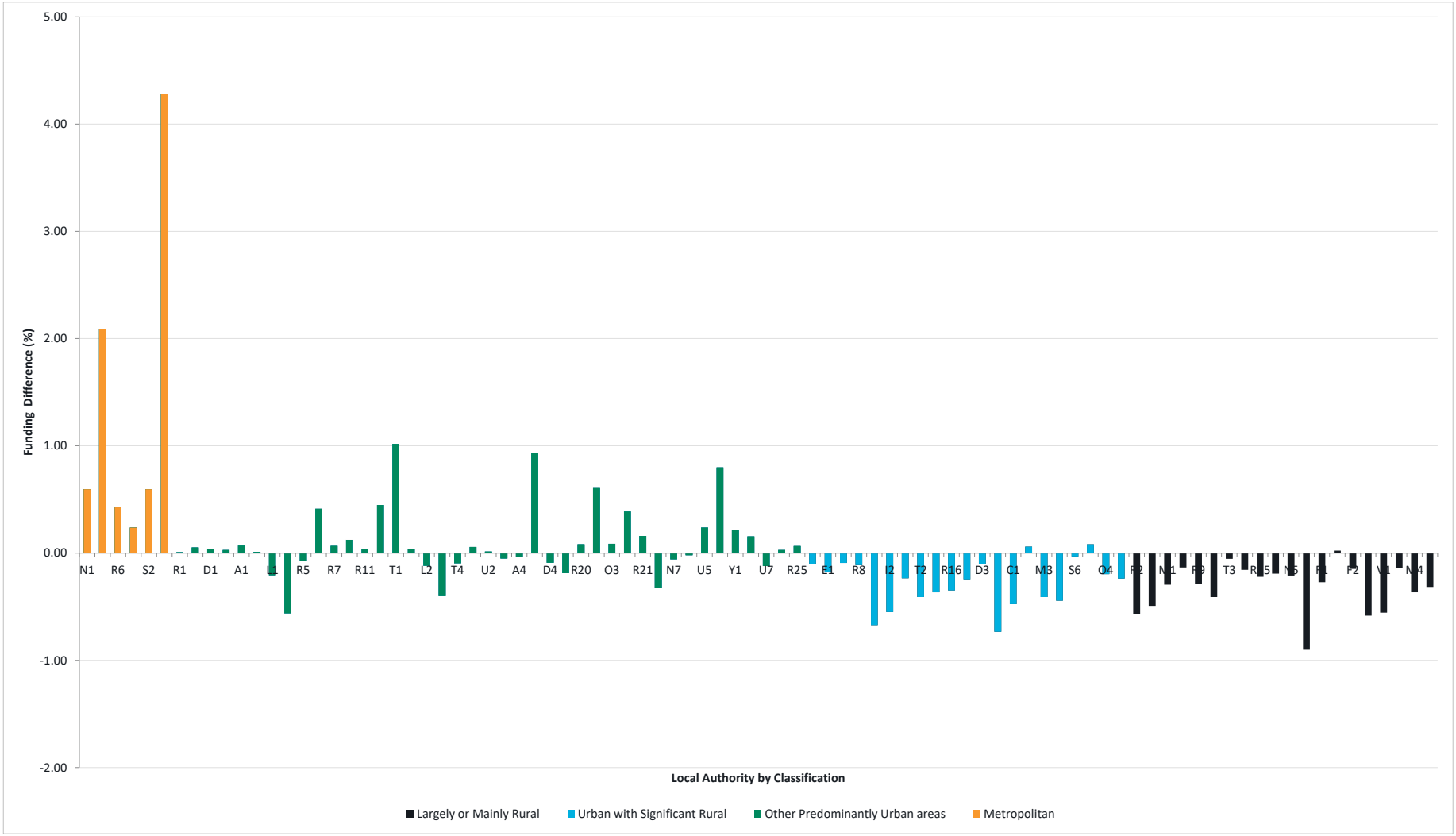
Sources: Steer analysis of DfT Bus Statistics 2018/19 BUS0109 and BUS0113

Figure 7.2: Allocating revenue support by bus passengers



Sources: Steer analysis of DfT Bus Statistics 2018/19 BUS0109 and BUS0113

Figure 7.3: Difference between allocating revenue support by bus passenger numbers compared to allocating bus kilometres



Sources: Steer analysis of DfT Bus Statistics 2018/19 BUS0109 and BUS0113

7.35 There is one further conclusion to draw from this analysis. To illustrate the strategic choices, we have looked at two extreme positions – allocation by bus kilometre (the *de facto* successor to BSOG), or allocation by bus passengers (as previously advocated by CfIT and Greener Journeys). Assuming the sum allocated is fixed, either approach leads to winners and losers. These can be moderated by the blended approaches set out immediately above, but there are still winners and losers. The only way to ensure that there are no losers is to increase the overall allocation. At a local authority classification level, moving from a per kilometre basis to per passenger basis the total funding pot would need to be increased by 43% to ensure that at an aggregate level no classification was worse off. This illustrates a wider principle, which is that options for reforming local transport funding have to be developed within the context of the likely funding allocation. Integral to this should be an assessment of what amount of money is needed to meet the established policy goals even if that level of funding is not immediately available.

A Needs-based assessment

7.36 Per bus kilometre and per bus passenger mechanisms allocate funding by measuring bus network size or the use of that network. There is a further strategic approach to be considered which is to allocate funding based on need. That is, rather than allocate funding on the network an area has or how well that network is used, allocate funding on an assessment of what network an area needs to meet the policy goals that have been set. This suggests a formula allocation and there are precedents for needs-based allocations within the transport sector – both Highways Maintenance Block (HMB) and Integrated Transport Block (ITB) are allocated by formula with different variables in the formula acting as proxy measures for some dimension of need for funding. Following the precedents of both HMB and ITB, once allocated, local transport authorities would be free to use the funds in the way they see as best to meet the particular needs of buses in their local areas. Local transport authorities could then allocate funds in a way that secures the best possible outcomes for their area, which could be an allocation by bus kilometre, bus passenger or a weighted combination of these. Alternatively, a local transport authority could choose to add the allocation to their budgets for supported services and use this to purchase the socially necessary network that they see as best for their area (accepting that such an approach would also lead to a smaller commercial network). In franchised areas, the formula allocation would simply go to offset some of the cost of contracts. There are other approaches - a needs-based formula would give local authorities the ability to develop and implement an approach that works best for their area.

Summary of BSOG Reform Option

7.37 Implicit within the Government's stated goal to reform BSOG is a recognition that the current system is not the most effective use of public money. We have identified four broad strategic options for reforming BSOG:

- Allocate funding on a per bus kilometre basis.
- Allocate funding on a per bus passenger basis.
- Allocate funding using a mixture of per bus kilometre and per bus passenger.
- A needs-based formula allocation to each local transport authority, allowing each authority the ability to allocate funding in the way that it considers best reflects local circumstances.

7.38

7.39 A key criterion for any reformed system is that for each pound spent it should be more effective at securing desired outcomes than the current system, otherwise there would be no point to the reform. There is also the critical question of how much funding is made available and how well this is aligned with meeting stated policy ambitions, which at present are those set out in *Bus Back Better*.

ENCTS

7.40 The analysis above has focussed on the broad strategic options to reform BSOG, but there is also the question of the future of ENCTS. In this regard, we note that:

- Pre-pandemic there was an increasing disconnect between the ""no better, no worse off" principle that ostensibly underpins ENCTS and the way that funding was provided to operators.
- According the LGA, there was a £200m per annum shortfall between the formula-allocated monies that came from Government to local authorities as part of RSG and the monies that local authorities paid out to operators.
- In metropolitan areas there is no relationship between the RSG money local authorities receive for ENCTS and the levy paid to the combined authorities, the body that pays operators for ENCTS.
- During the pandemic the relationship to concessionary passengers carried and payments was severed and ENCTS payments were explicitly used to support overall bus service provision.
- Post pandemic, pre-pandemic reimbursement parameters are unlikely to apply to what is actually happening. However, their recalculation would likely lead to a further funding shock to an already weak bus sector.
- ENCTS does not extend to light rail, even though light rail is an integral part of the local public transport networks in the cities that are served.

7.41 Reform of BSOG creates an opportunity for a more fundamental reform of the way the revenue support is provided to local public transport. It is recognised, however, that reforming BSOG and ENCTS at the same time, perhaps into a single integrated support mechanism, would be a major undertaking. There is a trade-off to be made between the urgency for BSOG reform and the time needed to develop and implement a wholesale reform of Government's support to bus.

Assessment of Options for Longer Term Reform

7.42 Even before the pandemic it was apparent that there is a need to reform to bus funding. In *Bus Back Better*, Government committed to consult on reforms to BSOG. We think that there are good grounds to extend this consultation to include options for a consolidated BSOG/ENCTS reform, although we recognise that this would extend reform timescales. Either way, allowing for consultation, Government's consideration of responses, drafting and then adopting new legislation or regulations and then putting systems in place, it will take time to move from design through consultation to implementation and experience from previous reforms would suggest the more complex the reform, the longer will be needed.

Reform BSOG

Move to a per bus kilometre basis rather than per litre of fuel

7.43 This is the simplest reform option and would be a *de jure* recognition of the current direction of incremental changes that have been made to BSOG. Such options could include incentives

to promote beneficial change, such as has been previously applied to encourage bus operators to invest in electronic ticketing machines and GPS. A higher rate could be applied to zero emission vehicles. For this option, the question is then what the rates paid should be.

7.44 The attraction of such an option is that it would be relatively straightforward and quick to implement, requiring little change to established systems. However, as with fuel-based payments the payment mechanism is geared to supporting network coverage rather than passenger numbers. In essence, this approach would maintain the same short comings of the current BSOG system, which Government has committed to reform.

Move to a per passenger payment

7.45 With this option, the focus would be on incentivising the greatest number of bus passengers per bus kilometre. Such an option would change the balance of funding between different types of services – core commercial, other commercial and tendered services. It removes the ability to incentivise operators to provide other commercial services that would otherwise have to be tendered by local authorities. It would also change the balance of funding between local authority areas with those that have the largest proportions of their networks provided commercially gaining the most. and is likely to be disruptive to the industry and hence to passengers. Unless it is accompanied by an increase of overall funding to compensate areas that would otherwise lose, network change is likely to have negative social consequences. Such an approach would constrain the ability to incentivise change, such as decarbonisation of the bus fleet.

Move to a combination of per bus kilometre and per passenger payments

7.46 A combination approach would allow a more balanced use of funding to achieve multiple outcomes. In this regard, we would note that:

- There is opportunity to provide different weightings to bus kilometres and passengers in different places. For example, in predominantly rural area which have a greater proportion of bus kilometres provided by supported services, greater weight could be placed on bus kilometres, while in metropolitan areas greater weight could be put on passenger numbers.
- While DfT may develop the default splits between bus kilometres and bus passengers, there is opportunity to devolve funding to mayoral combined authorities which could then develop and apply their own local weightings.
- Such an approach still allows for additional incentive payments, for example for use of zero emission payments.

Develop a needs-based formula approach

7.47 In this option funding is allocated to local authority areas based on a formula, with the variables in the formula capturing some element of ‘need’ for bus services. This would be similar to the approach adopted for Highways Maintenance Block and Integrated Transport Block. The challenge with such approaches is developing a formula that can be supported by available data, while genuinely capturing current and future need in the diverse rural, urban and metropolitan areas across the country. There is then a further question of how the calculated funding is then allocated to bus operators. On the plus side, such an approach would give the maximum flexibility to local transport authorities to allocate funding in a way that they consider would have best effect in their area. It would fit well with the Enhanced Partnerships being introduced across the country, as well as with franchised systems. It would

fit well with multi-year settlements. It also offers the potential to reduce the cost of administering the system.

7.48 In summary, such an option:

- Has precedent in other areas of (capital) transport funding.
- Will also need a mechanism to allocate each local authorities award to bus operators. While DfT may develop a default mechanism, there is also an opportunity to devolve the allocation mechanism, or simply use the allocation to buy additional supported services.
- Would fit well with Enhanced Partnerships and franchised systems.
- Would fit well with multi-year settlements.
- Would be more challenging to apply national policy-driven incentive systems, for example to support uptake of zero emission vehicles.

Reform ENCTS

7.49 A more fundamental reform of BSOG creates an opportunity to also consider the future of ENCTS. The principal reform option for ENCTS is to move away from a payment system that seeks to leave bus operators "no better, no worse off" to one which there is a simple payment that reflects the social benefits to concession holders and other public transport users of providing free travel. Whilst still a per passenger payment, such a system could have different schedule of repayment rates, for instance in rural, urban or metropolitan areas. A further benefit is that such a system would be administratively simpler than the current ENCTS approach, saving time and money for local authorities and bus operators. The challenge would be to develop a formula that appropriately captures the social benefit of free travel in different parts of the country and converts this into a cash payment. Any ENCTS reform has the potential to be disruptive and transition arrangements may well be necessary if any change resulted in some areas being major "losers" from such reform. It would take some time to develop and implement.

A single support mechanism

7.50 In this option, both BSOG and ENCTS are abolished and are replaced by a new Bus Support Grant. Each of the allocation mechanisms considered above for BSOG reform would be applicable, although it would seem likely that either an element of per bus kilometre and per passenger funding or a formula-approach would be needed. There would be options for devolution of allocation to mayoral combined authorities, as well as for policy-driven incentive payments.

7.51 While potentially the most complex reform option, once in place it has the potential to be more administratively simple and hence lower cost to administer than any other option considered. It is also likely to give the greatest long-term flexibility to respond to future circumstances.

Multi-year revenue settlements

7.52 A further potential option for funding would be multi-year settlements. In its review of local bus funding, the National Audit Office has identified long term funding certainty as a success factor for the Government's bus strategy.[102] Such multi-year revenue settlements would need be of a sufficient length to provide a level of certainty to operators and local transport

[102] Figure 17, NAO (2020) *Improving local bus services in England outside London* HC 577

authorities to make investment decisions, enabling each to plan across a number of years. While predominantly for capital spend, National Highways, Network Rail and most recently combined authorities with their City Regional Sustainable Travel Settlements receive five-year allocations which give certainty and offer flexibility when in the five-year period funds are spent.

7.53 While in theory multi-year revenue settlements could be applied to any of the options, those approaches that use bus kilometres and/or bus passenger numbers would need to be based on forward estimates of network size and/or use and could easily lead to over or under payments by the time the multi-year period comes to an end and then discontinuities in funding as a new period starts. In contrast, a needs-based formula allocation offers an approach better suited to a multi-year settlement.

7.54 There is also the question of how much funding is available. Getting better value than the existing system would be a pre-requisite for any reform option, but there also needs to be a link between the scale of funding and what is wanted from that funding.

Pump-priming Funds

7.55 Pump-priming would involve targeted funding to go to specific services or interventions. Such funding could be revenue or capital. In the past, Government has used competitions to promote innovation, although it has been argued that over-use of competition funding can over-burden local authorities, while also favouring those that are better resourced. When it comes to pump-priming revenue funding there is always the question of what happens once the funding comes to an end and past experience is that a common outcome is that the funded activity ceases. Nonetheless, used well such funding would allow Government to promote innovation, test new concepts or help resolve barriers to early take-up of new technology.

Summary

7.56 A summary of the potential reform options along with their potential impacts and what would need to be done to take them forward is set out in Figure 7.3.

Table 7.3: Options for Local Public Transport Funding

Option	Option Description	Potential Impacts	Next Steps/Requirements
BSOG Reform – per bus kilometre payments	• Reform BSOG to provide a per bus km grant	• Removes tie to fuel consumption • But maintains inherent features of current allocation method, which is considered as needing reform • Closest option to current system, so also easiest to implement with minimal transition time • As current system, can be used flexibly to incentivise bus operators to meet social and environmental goals	• Could be implement quickly utilising existing mechanisms • Potential stop-gap to more fundamental reform
BSOG Reform – per passenger payments	• Reform BSOG to provide a per bus passenger grant	• Removes ability to incentivise bus operators to meet social goals • Moves policy focus to maximising patronage Would change balance of funding allocations leading to disruptive network change with potentially negative policy impacts • Would need transition period	• Design alternatives • Consultation on BSOG reform • Develop transition arrangements
BSOG Reform – combination per bus kilometre and per passenger payments	• Reform BSOG to provide a context specific grant to operators. This would be based on either per km or per pax depending on the objectives of the LTA.	• Can be used flexibly to incentivise bus operators to meet social and environmental goals • Would change balance of funding allocations leading to network change • Less disruptive than per passenger payments but would still have potential negative impacts • Would need transition period	

		• Potential for devolution with LTAs allocating funding based on local needs and requirements	
Needs-based formula approach	• Replace BSOG and move to a needs-based formula	• Flexibility to incentivise bus operators to meet social and environmental goals, but determined at a local level • Would change balance of funding allocations leading to potentially disruptive network change and potential negative impacts • Would need transition period • Potential for devolution with LTAs allocating funding based on local needs and requirements	
ENCTS Reform	• Reform ENCTS to a payment per pax based on contribution to social objectives	• Simplifies ENCTS payment system and lowers costs for authorities and bus operators • Potentially disruptive change • Removes LTA funding gap	• Design alternatives • Consultation on ENCTS reform • Develop transition arrangements
Bus Support Grant - Joint BSOG/ENCTS Reform	• Reform both BSOG and ENCTS to create a single funding system which supports operational costs	• Can be designed to meet modern requirements for bus funding in terms of environmental and social objectives whilst remaining simple to manage and deliver • Would change balance of funding allocations leading to potentially disruptive network change with associated negative impacts • Would need transition period • Devolution with LTAs allocating funding based on local needs and requirements	• Design alternatives • Consultation on grant reform • Develop transition arrangements
Multi-year revenue settlements	• Multi-year settlement, e.g., 5 years • Applicable to all options	• Certainty for operators and LTAs • Support investment and innovation	• Can be implemented by Government for each

		• Precedents in other aspects of transport funding	reform options, but better suited to a needs-based formula allocation
Pump-priming funds	• Competition funding or additional allocations to reformed BSOG/Bus Support Grant	• Promote innovation • Test new concepts • Overcome implementation barriers • But some bidding authorities better placed to take advantage than others	• Integrate within wider reform options

Light Rail

7.57 In the city regions they serve, along with buses and local rail services, light rail is part of the local public transport offer. Light rail delivers substantial social and economic benefits. Indeed, it is these benefits that underpinned the case for light rail's introduction and the subsequent network extensions. Those cities with light rail systems continue to develop options for further system expansion, while other places which do not have light rail are actively developing proposals – in the case of West Yorkshire with substantial financial support from Government.

7.58 Bus franchising, as being implemented in Greater Manchester and which is being considered elsewhere as an option for bus reform, offers an opportunity to better integrate local buses and light rail services, which can increase value further. This could be through approaches to fares and ticketing, as well the integration of routes and services.

7.59 Like local bus services, throughout the pandemic light rail systems received emergency funding support and this helped maintain their operations during periods of lockdown and restrictions, as well as allowed services to be maintained in advance of the return of demand. However, and in contrast to local bus services, light rail services receive no other on-going support from Government. Indeed, a pre-requisite to receiving Government capital funding was that promoters demonstrate that their light rail proposals would generate sufficient fare box revenue to cover operating costs without support and in some case, make a contribution to financing the system's capital costs. Light rail systems are also not part of ENCTS and any concessions to the elderly or registered disabled must be self-funded.

7.60 In a deregulated bus market, operators are free to run services in competition with light rail services. Such services will attract BSOG, which means that, in effect, they receive a subsidy from Government to support competition with light rail services running on infrastructure substantially provided by Government grant.

7.61 Like bus, light rail systems are unlikely to see patronage return to pre-pandemic levels, at least in the short to medium term. Pre-pandemic projections of future demand and revenue will no longer come about. Like bus, light rail is facing increasing costs – light rail operators are facing the same upward pressures on staff costs as all sectors of the economy and their power costs are also increasing. In contrast to bus, it is much harder for light rail systems to escape operating costs through marginal changes to services. It would be naïve to think that there can be a quick return to the pre-pandemic financial situation of revenue covering day-to-day operating costs. If the value of past investment is to be maintained, further short-term support would seem necessary.

7.62 Light rail services not being part of ENCTS also raises basic questions of societal fairness. There are very few journeys that can be made by light rail that cannot also be made by bus. However, the light rail journey will usually be inherently more attractive by being faster than the bus alternative, offering a more punctual journey, or simply be a more comfortable travelling environment. The original purpose of ENCTS was to make travel more affordable and in doing so contribute to greater well-being, but what the exclusion of light rail from ENCTS does is exclude that proportion of pass holders who cannot afford to pay for a light rail journey, even if discounted. The cost-of-living crisis will only increase the number of people who fall into this excluded group. In London, the Freedom Pass (the London equivalent of ENCTS) can be used on all modes of public transport. While local authorities can step in and extend ENCTS-like benefits to light rail, their financial ability to do so varies. In contrast to other benefits that they receive, the public transport concessions available to pensioners

depends on where in England they live. Extending ENCTS to light rail would mean that the range of benefits enjoyed by London pensioners are available to pensioners elsewhere.

7.63 Reforming bus support also creates the opportunity to consider whether funding support should also be extended to light rail. This is not to say that post-pandemic light rail operators should not work hard to minimise their costs and maximise their operational efficiency, but such a consideration would recognise the challenges of returning to pre-pandemic operational funding model. The rationale for funding support is that without such support, light rail would not be able to deliver societal and economic benefits to the full - in effect, the return on previous capital investment will be diminished.

7.64 There is precedent for Government supporting light rail operations. Tyne & Wear Metro receives on-going Government grant to support its operations. When introduced in the early 1980s Tyne & Wear Metro replaced local rail services which received Government grant, reflecting the societal and economic benefits they provided. This grant transferred to Tyne & Wear Metro and has continued since.

8 Conclusions and Way Forward

8.1 This report has established the importance of local public transport in terms of meeting Government's social, economic, health and environmental goals. Bus is most well used by the young and the elderly, women and the poorest in society. For many, bus is the only transport option available to access work and education. Light rail serves as a key transport link for commuting and leisure journeys.

8.2 Local public transport patronage decreased suddenly and substantially as a result of the pandemic and associated restrictions on travel. To retain and restore local public transport service levels, Government provided a series of short-term funding measures, in addition to established funding mechanisms such as BSOG and ENCTS, with the link between the number of concessionary passengers carried and funding received broken for the latter.

8.3 At the end of November 2022, bus patronage outside London had recovered to around 85% of pre-pandemic levels. However, all the indications are that it looks unlikely to recover to pre-pandemic levels by the time the current tranche of Government emergency funding comes to an end in March 2023. At the same time and like the rest of society, bus and light rail operators are facing increasing costs – fuel is more expensive and there is upward pressure on wages, with the latter due to the twin pressures from the cost of living crisis and sectoral staff shortages, notably drivers. Even without these cost increases, bus operators would have faced a situation where their revenue is insufficient to meet their operating costs and a provide reasonable margin. Increasing fuel and wage costs just make this situation worse.

8.4 In *Bus Back Better*, the national bus strategy for England, the Government sets out its aim to restore bus patronage to pre-Covid levels and then for bus patronage to increase. If, as it currently intends, Government's Covid-related financial support to the bus sector ceases at the end of March 2023, the combination of patronage being lower than pre-Covid levels and increased unit operating costs means there will be further decline in bus patronage as service levels adjust downwards to reach a new equilibrium between patronage and revenue, and operating costs. Without further intervention the Government's *Bus Back Better* aims cannot be met.

8.5 Even before the pandemic it was apparent that there is a need to reform to bus funding. In *Bus Back Better*, Government committed to consult on reforms to BSOG. In this report, we have set out a number of reform options and what are the likely pros and cons of these. There are grounds to extend this consultation to include options for a consolidated BSOG/ENCTS reform, although it is recognised that this would be more complex and extend reform timescales.

8.6 Allowing for consultation, Government's consideration of responses, drafting and then adopting new regulations and then putting systems in place, it will take time to move from design through consultation to implementation. The more complex the reform, the longer will be needed. An extension of emergency funding beyond March 2023 would create time for this to happen while avoiding a further shock to the bus industry with negative consequences to

service levels and patronage. After this, a way forwards could be short term reform as an interim settlement while proposals for a more comprehensive reform are developed . Whatever way forward is chosen, the need for reform is undiminished.

8.7 The question of reform cannot be separated from the question of how much funding is available. Getting better value than the existing system would be a pre-requisite for any reform option, but there also needs to be a link between the scale of funding and what is wanted from that funding and approach to its distribution. To be meaningful, any consultation on future reform options also needs to set out the future scale of the funding that is available, otherwise consultees would not be in a position to comment fully on the merits of the proposed options.

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Client contract/project number

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Distribution

Client: Client Team Steer: Project Team

Version control/issue number

Draft v0.25

Date

February 2022

steer

QUALITY SYSTEM CERTIFICATION
DNV·GL
ISO 9001:2015

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