



Bus Regulation Myths and Facts

Briefing

This briefing addresses some of the most common arguments used against bus franchising – and then sets out the facts.

Is franchising the real issue?

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The most important factor for passengers is more reliable bus services which franchising will do nothing to address, whereas delivering more bus priority schemes would provide the better services that passengers want to see.

The reliability and punctuality of bus services is very important to passengers and bus priority measures are one way of contributing to this. Bus priority measures can include bus lanes, traffic signals which give priority to buses and bus gates (which give buses priority access to junctions). City region transport authorities have extensive bus priority programmes.

For example, Greater Manchester is investing in over 25 miles of new or improved bus priority – one of the largest investments in Greater Manchester's bus network for decades; and West Yorkshire has delivered three guided busway schemes as well as major bus priority schemes on key radials like the 4km long A65 scheme.

But important as bus priority is, it is not the only factor affecting bus reliability and journey times. Other factors include complex, cash fares structures which slow down boarding times, as well as how well vehicles are maintained (the last set of Department for Transport statistics on the issue showed that more bus mileage was lost due to factors under operators control than through traffic congestion). Franchising would address some of these other factors directly as it would ensure simpler ticketing and would penalise poorly managed bus providers whilst rewarding those that operated efficiently.

Bus priority schemes can be difficult to implement due to local opposition concerning the impact on local residents and traders. Without franchising there is no guarantee about the extent and quality of the bus service that will use the bus priority, nor can there be a sense of how the scheme fits into a wider plan for an improved and integrated public transport network for the wider area. With franchising it would be easier to persuade local councillors that the short term pain of scheme implementation will be worth it for the longer term gain of a quality bus network. Local authorities will also have a direct stake in the benefits of bus priority as it will affect the economics of the bus franchises.

Finally, pitting bus priority against bus franchising is a false choice in that you can do both, and bus franchising gives passengers far more than bus priority does in isolation.



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“Population decline, more car-based developments at the urban fringe, and rising car ownership are of more relevance to the decline of bus use in Metropolitan areas than deregulation”

Growing car ownership and a shift of employment, retail, public services to more car-dependent, out-of-town sites are factors in the decline of bus use in the Metropolitan areas¹. However, a regulated and planned approach to bus provision would enable the bus to respond more effectively through:

- improving the quality of the bus offer (higher and enforced standards for reliability, cleanliness and customer care as well as the elimination of low quality vehicles and services);
- making bus travel simpler and therefore more attractive to non-public transport users (one network, one ticket, services that connect rather than compete);
- ensuring the network responds more quickly to the changing nature of the city regions (such as putting bus services into new developments from day one and better provision of radial routes);
- ensuring that bus services are provided as part of wider integrated public transport networks – where each mode can play to its strengths.

It is also important to note that the population of the Metropolitan areas is not in decline. In fact, across the six English Metropolitan areas population has grown by 4.5% since 1985.

3

“Across the country bus companies are delivering growth and high passenger satisfaction levels so why undermine that?”

Whilst it is both welcome and true that there is passenger growth in some areas, the overall picture is one of growth in regulated London and decline elsewhere, with decline particularly acute in the city regions.

Since 2009/10, bus trips per head remained fairly stable in London. Meanwhile, this figure fell by 9% in Metropolitan areas and 5% in the rest of England.

And the long term historical trend since deregulation shows an even starker picture. In 1985, the bus was actually more popular in the Metropolitan areas (185 bus trips per head) than in London (170 bus trips per head). Since then, the number of bus trips per head in the Metropolitan areas has more than halved. In London, by contrast, that figure has increased by 66%. As a result, each Londoner now makes, on average, three times more bus trips than somebody living in the city regions.

Turning to passenger satisfaction, the figures produced by Passenger Focus are based on passengers' views of their last journey and whilst it is pleasing that many were satisfied overall with their last bus trip this should not be taken as meaning they are satisfied with the way in which buses are currently provided. For example, a public consultation on the West Yorkshire franchising proposition received 895 responses with 90% backing the proposition.

¹ For the purposes of this paper, 'Metropolitan areas' refers to Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, the West Midlands and West Yorkshire.



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The passenger satisfaction statistics also, necessarily, do not include those passengers who no longer have a bus service. The detailed figures also reveal some interesting findings about passengers views on issues like fare levels where only 61% of bus users are satisfied with the value for money of their last trip.

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“Operators are already delivering smart and multi-operator ticketing in places like Oxford so franchising is not necessary”

London’s Oyster ticketing system (where the same fare structure operates regardless of which operator runs the service), cannot be fully replicated elsewhere under bus deregulation. For example, anywhere in London, a single bus journey will never cost more than £1.50 because in London there is one network so the fare will always be the same for a given journey type no matter which company happens to be operating the service under franchise to Transport for London (TfL). Under bus deregulation, competition law makes it illegal for operators to fix the prices of single operator fares to replicate the London system because by definition deregulation means a free market and you cannot determine or set the prices of all products in a free market.

In short, only London-style franchising gives you London-style ticketing.

Oxford is often quoted by operators as showing how they can deliver Oyster-style ticketing in a deregulated environment. The Oxford scheme does have obvious benefits for passengers. But it is a very small scale scheme, applying within an area the size of Croydon, and extending to only two of the operating groups running bus services into the city. A premium is also charged for some of the tickets that can be used on both of the two operators involved in the scheme, and each operator also has its own smartcard brand and single operator ticket prices, which all contribute to a more complicated fare structure than for bus services in London.

Local government aspirations and motivations

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“Transport authorities want to turn the clock back to 1985 to a mythical golden age for the bus”

Prior to bus deregulation bus services were provided by a mix of local authority owned operators and the nationalised National Bus Company. Our members have no aspirations to return to those days or to re-nationalise bus services (it would make no sense to plan and deliver local bus services on a national basis given their essentially local nature).

We are looking forward not back. Franchising of public transport is now the policy norm in Britain and across Europe. Bus services in London and rail services across Great Britain are provided in this way.



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“It’s a myth that operators are making high profits from bus services and any profits they make are needed to support investment in services and vehicles”

Analysis of company accounts shows that over the past ten years, bus operating profits in the Metropolitan areas were 8.5%, compared to 3.7% in London and 6.4% elsewhere in England. Some bus companies make very high profits in the city regions. For example over the past ten years Stagecoach in Tyne and Wear had an average operating profit margin of 18.8%. Midland Red (Stagecoach in Coventry and Warwickshire) had 15.8% and First West Yorkshire 15.6%.

In the Metropolitan areas, big operating groups paid out 85% of after tax profits in dividends to shareholders. This means that no more than 15% of profits were actually reinvested in the local area.

7

“Local transport authorities want to re-regulate all bus services”

Local Transport Authorities are best placed to determine how bus services should be provided depending on local circumstances and aspirations. The argument is not, therefore, that all bus services should be regulated, rather the law should be changed to make the option of introducing franchising easier to implement.

8

“Local transport authorities are not trying to make partnership work in their areas, because that would undermine the case for franchising”

Despite the flawed nature of bus deregulation, the city regions are one of the country’s biggest backers of the bus. The transport authorities for the Metropolitan areas in England provide around half a billion pounds a year of support for the bus in their areas and their rate of capital spend on bus is far higher than the average for other local transport authorities in the rest of England outside London.

Their support for bus services includes:

- Working with operators and District Councils on major bus priority programmes;
- Supporting socially necessary bus services;
- Working with operators to ensure that there is extensive and impartial information about bus services available to the public (including printed timetables, real time information, telephone inquiry services and online journey planners);
- Working with operators, schools and the police to implement coordinated strategies to tackle crime and anti-social behaviour.

Transport authorities in the Metropolitan areas will continue to work with the industry and other agencies wherever we can to improve services for passengers.



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“Local transport authorities are obsessed with control and want the political prestige that would come with getting their bus operations back”

Control over bus services is not the objective. The objectives of franchising are reversing decline, giving passengers a better service, and ensuring that the bus plays its full part in underpinning the sustainable and equitable regeneration of the city regions.

The point of franchising is not ownership but to develop a market that actually works in responding to the demands from transport users, businesses, and growing city regions. We want to get the right framework in place where we can work with the private sector to deliver growth.

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“Local transport authorities are pursuing their own political agenda and the professional consensus is that working in partnership with operators is the best way to improve bus services”

There is a cross-party consensus around the need for more powers to regulate bus services including the current Government’s commitment to new buses legislation.

Comparisons with other parts of the country

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“Franchising is too expensive – the high costs of the London system will be replicated in the areas that decide to franchise”

Far from being a more expensive way of providing bus services franchising results in better outcomes for passengers per pound of subsidy because it:

- Allows for less busy routes to be cross-subsidised by the profits from the busiest services (not possible under the current system);
- Eliminates wasteful duplication and over-provision on core routes (which occurs when operators either compete head-to-head or over-provide as a defence against potential competition);
- Ends the leakage of public subsidy into the super profits that some operators currently make from local monopolies under bus deregulation;
- Pools available subsidy into a single pot to buy a single outcome which is more efficient than using separate funding streams to buy unclear outcomes as is the case under bus deregulation.



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The franchising of bus services does not automatically lead to London-style costs. This is because franchising is a means to an end – not an end in itself with a pre-determined price tag. The cost of a franchise relates to what is specified in the contract and the nature of the area served. TfL is using franchising to provide London with a world-leader bus network where the subsidy per trip figure is lower than outside London due to high growth and high volumes of passengers. Subsidy for London Buses is also falling.

The city regions are also not expecting, or seeking to, move to the level and quality of service that London currently has in a single leap, however franchising can deliver a better service than passengers have now even with less public subsidy. As London demonstrates, as more funding becomes available, then the quality of the network can be further ratcheted up.

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“London is unique – bus regulation is a minor factor in the success of buses there. Public transport’s large market share, bus priority measures and congestion charging are far more important”

Central London is unique but central London is not the whole of London. Most of London has very similar characteristics to the urban areas contained within the conurbations.

There are many factors in the growth of bus use in London, these include the importance of public transport in allowing access to the city centre, the introduction of the congestion charge, and the implementation of an extensive bus priority programme.

However, bus services in London were regulated and bus use was growing before congestion charging was brought in and before the current wave of bus priority schemes was implemented.

In short, bus regulation is far from being the only factor in the success of the bus in London. However, it is a **necessary condition** of that success.

Regulation would allow transport authorities to once again provide a bus network which is planned and integrated and can respond most effectively to growing economies and changing travel patterns, much in the same way as TfL has been able to do. Without regulation, London would today probably suffer from massive over-bussing on core corridors (with significant implications for traffic congestion) and a patchy off-peak and secondary network. The Oyster card and simple fares system, the high quality information, the quality and accessibility of the bus fleet would all have been virtually impossible to achieve with deregulation. Which is why it is difficult to name a single organisation, politician or bus company which is calling for the deregulation of bus services in London.

Without in any way decrying the importance of factors other than regulation in the success of the bus in London – these factors can sometimes be overstated.



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“Bus deregulation is delivering in Sheffield, the West Midlands, York, Brighton, Oxford and Cambridge where local authorities are working with in partnership with bus companies”

Although it's difficult to get comparable data there are cities and areas where ridership has increased since deregulation.

The most quoted examples are York, Brighton, Oxford and Cambridge.

The most common characteristic of these cities are that they have historic, constrained city centres where access by car is difficult and the local commuter rail network is minimal. These create the ideal conditions for bus-based park and ride – which helps to drive up wider bus use figures for these cities. The same conditions rarely apply in Metropolitan areas.

There is much that can be learned from all these examples but the read-across to the Metropolitan areas (and the belief that voluntary partnership is the overriding factor in their success) can be overstated.

- The Metropolitan areas do not contain prosperous, ‘Cathedral’ cities with historic centres which constrain car use and thus create ideal conditions for the bus. For example, a typical Cambridge City Council car park charges £24 per day, something which would be politically difficult to gain public and political consent for in many of the Metropolitan areas;
- In some areas the recent rate of growth is welcome – but can mark a recovery from a low base (in terms of both trips per head, and absolute volumes). In Metropolitan areas the current rate of bus use per head is still far higher than it is in many of the ‘success story’ areas. In other words some of these areas are recovering from a marginalisation of bus use that has not yet occurred in Metropolitan areas.

All city region transport authorities have worked within the deregulated framework to seek to improve bus services for passengers and have invested heavily in supporting the bus.

In Sheffield and the West Midlands there has been extensive partnership working between transport authorities and bus operators. This has brought considerable benefits for passengers. For example, since the latest Sheffield Bus Partnership was introduced two years ago, fare-paying passenger numbers for bus journeys in the city have grown by nearly 10% – an increase of 4.65 million journeys. It is important to note however that all the Metropolitan areas support the simplification of the existing legislation to make it easier to introduce franchising and no Metropolitan area has ruled out its use.



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“Northern Ireland is a good example of how a more regulated system does not lead to patronage growth”

Buses in Northern Ireland are effectively nationalised and have been for many years so Northern Ireland is not a direct comparator for the franchising of services.

Historically, bus use in Northern Ireland has been in decline. Transport policy gave priority to the private car as this was felt to be the best option for the local economy. However, investment in public transport has increased in recent years – partly as a by-product of the post-Good Friday agreement moves to devolve more power from Westminster to Northern Ireland.

Translink (the state-owned company responsible for bus and rail services in Northern Ireland) is far from the caricature of a public sector monolith overseeing decline. Around ten years ago, Translink introduced a ‘Metro’ network of colour coded high frequency routes in Belfast, which attracted new passengers and changed the perception of local bus services. The recession has hampered passenger growth but bus patronage in Belfast has still significantly outperformed Metropolitan areas in recent years. Since 2008/09, bus patronage has gone down by only 1%, compared to a fall of 9% across English Metropolitan areas and bus mileage has dropped by 3% compared to a 6% decline in Metropolitan areas. Meanwhile, bus fares increases have remained below inflation compared to above inflation growth in Metropolitan areas.

There may well be lessons that can be learned from Northern Ireland, but it is important to note that we are not proposing to introduce the Northern Ireland system.

Impact of franchises

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“The independent Board that sat in judgement on the franchising proposal in the North East found against the scheme and backed the operator’s case that it was poor value for money and disproportionate”

As part of the convoluted, disproportionate and arcane process set out to allow for franchising in the Local Transport Act 2008, a Quality Contract Scheme Board (made up of a Traffic Commissioner and two other members drawn from a panel) gives an opinion on whether or not the franchising proposal (‘Quality Contract scheme’ - QCS) meets a series of Public Interest tests. These tests are whether or not the scheme would increase the use of bus services (the Board said that this could not be demonstrated because its affordability is not demonstrated); whether or not the scheme would contribute to the implementation of local transport policies (the Board said that it would); whether or not the scheme would provide value for money (the Board said it would not); whether the scheme would have disproportionate adverse effects on operators (the Board said that it would).



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In arriving at its opinion the Board decided to introduce its own optimism bias, upping the costings for the QCS proposal (but not for the status quo) by 40% and called for compensation for operators if franchising were to be introduced (not part of the guidance or remit for the Board).

The Board found against the scheme despite recognising that the proposal would generate £130 million in benefits to the local economy and give local people a 'transport system unrivalled in Great Britain outside London'.

The North East Combined Authority (NECA) fundamentally disagrees with the findings of the Board and is considering its next steps given that a) the Board is there to give an opinion not to determine whether or not the Scheme goes ahead b) the likelihood of new legislation which will have a simpler and more proportionate process for franchising.

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“Local authorities don’t have the skills or expertise to run bus services”

Franchising does not mean local authorities would be running bus services directly.

We do not speak for all local transport authorities but transport authorities in the city regions do have the capability and capacity to deliver major programmes like bus franchising. We are proud of our record of effective and efficient delivery of major projects and programmes which we believe stands up to scrutiny.

We deliver complex major projects (like light rail systems), are responsible for multi-million pound bus funding projects and funding streams (like bus priority programmes and concessionary fares funding), and we are already involved in franchising bus services (in that we franchise on a route by route basis the approximately 15% of services that are not provided commercially under bus deregulation). We have also undertaken major franchising exercises (like the franchising of light rail systems).

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“There are no real benefits for passengers from franchising that cannot be delivered by partnerships”

The benefits that franchising delivers include:

- Simple, integrated ticketing;
- Bus services that connect with each other and with other modes;
- Contractual guarantees on service quality;
- More stable networks that are more accountable to bus users and their local councils;
- The ability to specify the quality of vehicles (including emission standards)

Some of these elements can be delivered, to some extent, in a deregulated framework but not the whole package. Also franchising locks these outcomes in through a contractual agreement. By definition it is not possible to guarantee these outcomes to the same degree in a deregulated free market.



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“It is the wrong time to be handing over responsibility for bus services to local government at a time of massive spending cuts. Cuts in services and fares increases will result”

As set out above, franchising is a more efficient way to use available public subsidy to fund a better network for passengers. By extension, cuts in available public funding will have a bigger effect without franchising. In addition by ensuring a more direct linkage between outcomes and public subsidy, franchising will also enhance the case for better public funding protection for bus services.

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“Franchising will lead to lowest common denominator based on lowest bids, managing costs and zero innovation”

The public sector has driven innovation in the bus sector including through guided busways, real time information, smart and simple ticketing (like Oyster), low floor buses and specification and funding of low emission vehicles.

Franchises need not be let on the basis of the lowest bid, quality and innovation can also be included in the criteria – as has been the case on recent rail franchises (like Scotrail).

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“Bus regulation will take years to implement and services will suffer in the transition”

Like many major transport improvements it is true that a regulated bus service cannot be introduced overnight. Nor should it be, given the need to ensure that there is proper plan development, consultation and contracting process. However, the substantial benefits that would result from franchising justify the time taken to bring it about and a simpler legislative framework for bus franchising would reduce the time the process would take.

In terms of the impacts on passengers of a shift to a franchised service, the main potential for disruption is during the transitional period between the contract being awarded and the start of the operation of the contract, especially if incumbent operators were unsuccessful in winning the contract. Indeed some incumbents have threatened to behave in a deliberately disruptive manner in terms of withdrawing services. The potential for disruption can be minimised in a number of ways – such as having a series of short term contracts in place to fill the gaps left if existing operators withdraw (NECA made such contingency plans as part of its Quality Contract proposal). Legislative change to provide additional safeguards during this transition period would also help.



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“Bus regulation means seizing private assets through quasi-nationalisation and requires consequent unaffordable compensation if it is to go ahead”

Bus regulation is not nationalisation and private sector companies will continue to operate bus services.

Bus deregulation is supposed to be a free market so it's difficult to see how operators can argue that they have the right in perpetuity to a monopoly on the provision of local bus services in a given area without exposing the fact that in effect bus services are operated by a functional cartel of local monopolies.

No assets are being seized in terms of buses or depots or anything else.

There is no case for compensation as operators will continue to be free to compete to provide services in franchised areas, free to compete in the free market where services are not franchised, and as set out above, compensation would imply they have the right to a monopoly in perpetuity of local bus services in a free market.

The powers to franchise bus services in the 2000 and 2008 Acts were passed by Government lawyers as being in line with wider EU and Domestic Human Rights, Competition and all other overarching domestic and European legislation. If there was a case for compensation under any of this legislation then Government lawyers would have had to insert it into these Acts which they did not.

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“Franchising will kill off smaller, good quality operators”

There is nothing to prevent franchise contracts being framed to provide opportunities for smaller operators and a number of smaller operators have welcomed the opportunities it could bring.

The main reason why smaller, good quality operators are currently disappearing is because they are being bought out by larger concerns in a process of consolidation of the bus industry into large monopolies under bus deregulation.



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“The threat of franchising will lead to bus companies stopping investment because of the uncertainty”

In the North East bus companies have invested at least £35 million in new buses and depots in the last two years, despite the claims that a franchising proposal would starve the region of new vehicles.

Examples include:

- Go North East invested £8.5m to build and open a new depot in Gateshead in 2014.
- Stagecoach invested £6m in 38 new buses for Sunderland in 2013, including 19 running on bio methane gas.
- During 2013 Go North East introduced 100 new buses – equivalent to one in seven of its entire fleet in the region – in a programme worth more than £14m.
- Arriva North East invested almost £7m in new vehicles in 2013, including gas buses.

United industry opposition?

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“Franchising is bad news for staff in terms of their pay, pensions and job protection”

Franchising is good news for people who work in the bus industry because it provides long-term job security in an industry threatened with job losses as passenger numbers outside London fall and companies cut costs and services. The existing legislation provides specific protection of terms and conditions where staff transfer to a new employer, and this goes further than standard ‘TUPE’ laws in including protection of pension benefits. NECA, in developing their franchising proposal, went further than this by engaging with unions from the outset and building in protection against compulsory redundancy and commitments on staff training and development.

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“The bus industry is united in its opposition to franchising”

The Confederation of Passenger Transport, and much of the trade press, gives the impression that ‘the industry’ is wholly opposed to franchising.

However, this is not true as a number of major public transport providers are positive about the opportunities that franchising could bring. This includes RATPDev, Abellio, Hackney Community Transport, Tower Transit and Keolis.

All the ‘Big Five’ operators bid for, and operate, franchises in other areas of public transport - including bus services in London, franchised GB rail services, and urban public transport networks around the world.