# Building a world-class bus system for Britain

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TfQL Community Interest Company
Final Report May 2016

TfQL
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Company

## About TfQL Community Interest Company

This report was researched and written by Ian Taylor and Lynn Sloman, founding directors of TfQL Community Interest Company. TfQL Community Interest Company was established as the not-for-profit sister company to Transport for Quality of Life Limited, to enable the skills and experience within Transport for Quality of Life to be deployed on projects of social benefit within a not-for-profit social enterprise structure. Its work aims to promote a transport system that is more socially and environmentally beneficial, through research, policy development and dissemination of good practice.

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The views expressed in the report are those of the authors and should not be taken to represent official policy of the organisations that have funded this research.

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## Note on terminology

The term ‘franchising’ is used broadly in this report, to cover all systems where bus operations are regulated and competitively tendered, including: ‘net’ contracts in which the bus operator retains the fare revenue; ‘gross’ contracts (‘concessions’ by other terminologies) in which the franchising authority retains the fare revenue; contracts let under a ‘Quality Contract Scheme’; contracts let under a system like that operating in London; or contracts competitively let under any other arrangement.

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## About the Foundation for Integrated Transport

The Foundation for Integrated Transport is an independent charitable foundation. Its aims are: to promote comprehensive integrated public transport networks, including better local and regional bus networks; to increase awareness of existing sustainable transport options; to support initiatives that help promote sustainable transport; to support groups and individuals promoting and protecting local bus networks and sustainable transport; and to promote car-free access and sustainable transport to leisure and tourism attractions.

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# Foreword

TfQL Community Interest Company was founded to help create a transport system that meets our social and environmental needs. It is therefore most fitting that buses should be the subject of research for this our first report. Buses carry more people every day than any other form of public transport and provide a lifeline to jobs and facilities for many households in disadvantaged areas and on limited incomes. They are essential to our economic, social and environmental wellbeing.

However, Britain's bus services fall far short of what we need if we are to have a sustainable transport future. In many areas people have in recent years been left stranded by the disappearance of services they relied on to get to work, education, shops and amenities. In most of Britain our expectations of the bus system have become constrained, following several decades without an overarching vision for what we want from our bus system.

This report takes a fresh approach. It steps back to consider what a world-class bus system for Britain would look like and looks in detail at why the present system of bus governance in Britain is failing to deliver that. Its findings point out a need for deep and extensive change, but nonetheless give us cause for optimism, because they show that there are cost-effective alternatives that could deliver a much better bus system. This report tells us that we can afford a world-class bus system, if we are bold enough to change from our present approach.

**John Stewart**

Chair, TfQL Community Interest Company

# Summary Report

## S1. Purpose of the report

Bus users in Britain inhabit different worlds, depending on where they live. In the first world, Londoners experience frequent services on a network and timetable designed by a transport authority that has the powers and funds to make the system work as a whole. In the second world, other big cities experience some good bus services where routes are commercially viable, but serious deficiencies elsewhere. Rural bus users live in a third world with a skeletal service or, in some places, no service at all.

This report is about seizing the chance to transform our bus services for the better. For the first time in thirty years, moves are afoot to fundamentally change the bus system in Britain. Yet this opportunity comes at a time of financial crisis for local transport authorities, when bus users are fighting to preserve the services they have.

At this moment we believe it is crucial to step back, remind ourselves of what a high quality bus network should look like, and work out how reform of the regulatory structures can enable us to achieve a world-class bus system throughout Britain. We argue that it is only by a wholesale shift to franchising, or municipal bus companies, that all parts of Britain can achieve a bus system to match the best in the world.

## S2. Deregulation failed to increase bus use

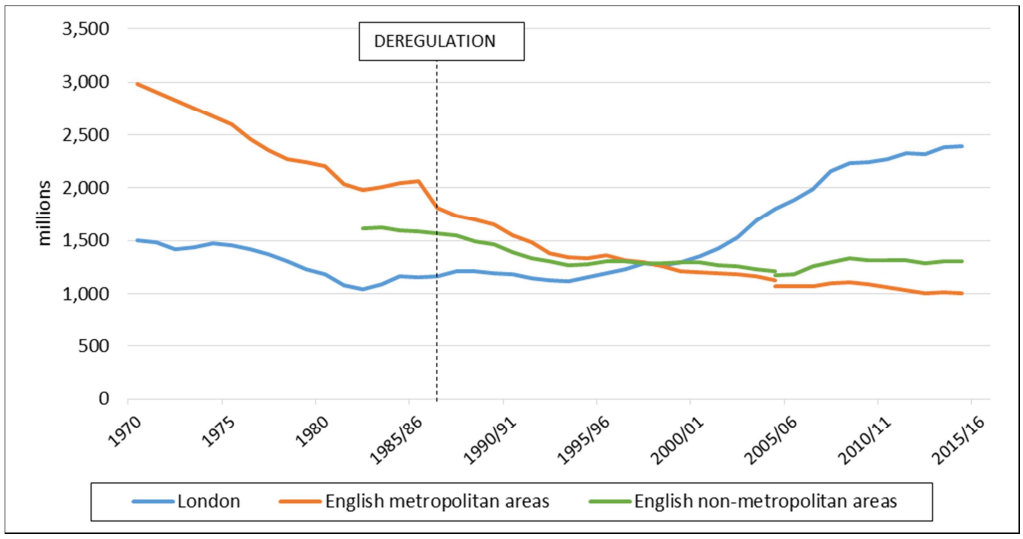
During the 1970s, bus use was in decline. This trend was reversed in the early 1980s, in London and the metropolitan areas, when the Passenger Transport Authorities and Greater London Council adopted policies of supporting bus services and keeping fares down.

Bus deregulation in the mid-1980s was supposed to lead to an improvement in bus services, and to more people travelling by bus. The 1984 Buses White Paper had argued that:

> *"Without the dead hand of restrictive regulation fares could be reduced now on many bus routes and the operator would still make a profit. New and better services would be provided. More people would travel."*

But deregulation had the opposite effect: fares rose, services worsened, and bus use fell. In the big cities outside London, the earlier small rise in bus use was replaced by a fall of 13% in just one year, followed by a steady downward trend. Bus trips halved from about 2 billion per year before deregulation to about 1 billion per year now (Figure S1). Patronage also fell in non-metropolitan areas, though with some individual exceptions where buses did well, such as Brighton and Kent.

**Figure S1: Annual passenger journeys on local bus services**



In London, where bus services remained regulated, the pattern is reversed: bus trips have doubled since the mid-1980s, from ~1 billion to over 2 billion trips per year.

The different trends in London and the rest of the country cannot be explained solely by recent more generous funding for buses in London: patronage held up in London whilst it fell in other big cities during the 15-year period from 1986 to 2000 when London saw a greater drop in its funding.

## S3. Deregulation and privatisation have a substantial cost

The privatised, deregulated bus system can only work if bus companies make a profit. This comes at a cost to society, in the dividends paid to bus company shareholders. This cost could be worth paying if it enabled a better bus system, but is hard to justify if (as we will later see) the deregulated structure is a barrier to world-class services, and public funding for buses is under pressure.

Across Britain, bus companies' average operating profit in the ten years to 2013 was £297 million per year. Almost all of this – on average, £277 million per year – was paid out as dividends to shareholders. This means that over a ten year period, there was a leakage of £2.8 billion, in the form of dividend payments to shareholders.

Operators in large towns and cities achieved the highest profit margins. Trent Barton, which operates around Nottingham and Derby, made an average annual operating profit of 18%, and Stagecoach's Tyne and Wear operation made an average annual operating profit of nearly 17%.

Profits and dividend payments were bigger, as a proportion of turnover, in deregulated areas than in London. Bus companies in the big cities made average profits of over 8%; in non-metropolitan areas the figure was over 6%; whereas in London (where services are regulated) it was less than 4%.

Levels of 'retained profit' (money reinvested in expanding or developing bus services) were very low: ranging from 0.2-1.5% of turnover in London, the big cities, and other areas.

A Competition Commission investigation concluded that bus operator profits are higher than in other business sectors deploying comparable levels of capital at equivalent levels of risk, suggesting that the market does not work as it should.

Nationally, dividend leakage is roughly equivalent to one-tenth of the public money that goes into supporting bus services. In some areas, dividend leakage is comparable to the level of recent cuts in public funding for bus services.

A few local authorities in Britain still have municipally-owned bus operators. These are often not obliged to pay a dividend to their owner (i.e. the local authority), and instead can reinvest profits to enhance the service. In Reading, municipally-owned Reading Buses can invest an additional £3 million per year in the bus network (representing about 12-15% of its annual turnover of about £25 million) because it does not pay any dividends. This makes a substantial difference to the quality of the town's bus network, and is one reason why it has high levels of bus use.

In France, there has been a significant shift in the way cities run their public transport over the last decade. Some municipalities and Départements have switched from contracting national private (or public-private) operators, to running bus services themselves. This has been driven by the need to cut costs. For example, the town of Saumur has made savings of 15% by setting up a municipally-owned company to run its bus services. These towns and regions are explicit that they are able to make savings while maintaining services because of the absence of a profit margin.

# S4. Charter for a World-Class Bus System

To be world-class, a bus system must:

- Provide an excellent experience for passengers
- Ensure cost-effective use of public money, so public investment can be justified
- Form part of a city's or a region's strategic vision, and be provided in a supportive policy context.

From discussion with expert interviewees and surveys of transport professionals and local bus users, we identified 16 essential attributes of a world-class bus system under these three headings, listed in Table S1 (next page) as a 'Charter for a World-Class Bus System'.

Deregulation is a major obstacle to the achievement of 13 of the 16 attributes. The other three are partly but not fully achievable under a deregulated bus system. Even under voluntary and statutory partnerships between bus operators and local transport authorities, 10-11 of the attributes cannot be achieved, while 5-6 can be partly but not fully achieved.

Franchising, as it currently exists in London, enables seven of the attributes to be fully achieved, and nine to be partly but not fully achieved. Thus, franchising – although not guaranteeing a world-class system – performs much better than deregulated systems, even where these are modified through voluntary or statutory partnerships.

## S4.1 Providing a world-class passenger experience

Deregulation makes it more difficult to provide an excellent experience for passengers in the following respects:

A world-class bus system would have a **comprehensive network of bus routes** to serve all destinations, both at busy times and at less busy times in the evening and on Sundays. By contrast, the current deregulated bus system only provides services on a limited number of routes where demand is high enough for operators to make a profit. Other services can only be provided through public funding at a disproportionate cost. Consequently, many places now have no services at all during the evening and on Sundays.

A world-class bus system would have **simple area-wide fares**, valid across all forms of local public transport (buses, trams and local trains). This would include Pay As You Go (PAYG) smart ticketing, so the fare paid for multiple trips was capped and passengers automatically received the best deal. Deregulation makes this impossible – the best it can achieve is a confusing mix of many different ticketing products, some valid for just one operator and others for multiple operators.

In a world-class bus system, **timetables and services would be coordinated** so that journeys that required a change of bus could be made without a long and inconvenient wait, and so bus departure times were evenly-spaced. This requires a city's or region's bus network to be designed as a whole. The deregulated system, in which bus operators can choose what services they run in order to make the most profit, makes this impossible.

Passengers want their bus services to **run quickly and on time.** This can be partially achieved under a deregulated system, and in recent years there have been improvements in bus punctuality. However, a deregulated system deters both operators and local authorities from investing in bus priority measures.

**Table S1: A Charter for a World-Class Bus System: how well can current bus governance deliver?**

| | Total de-regulation | Voluntary Bus Partner-ship | Statutory Bus Partnership | Bus Franch-ising* |
|---|---|---|---|---|
| **A world-class passenger experience** | | | | |
| 1. A comprehensive bus network, where you want, when you want | ■ | ■ | ■ | ■ |
| 2. Simple area-wide fares, valid across all local services (buses, trams and trains) | ■ | ■ | ■ | ■ |
| 3. Coordination of timetables and services between buses, and with other modes | ■ | ■ | ■ | ■ |
| 4. Bus services that run quickly and on time | ■ | ■ | ■ | ■ |
| 5. A stable network from one year to the next | ■ | ■ | ■ | ■ |
| 6. Easy-to-find, comprehensive information | ■ | ■ | ■ | ■ |
| 7. Affordable fares, competitive with driving | ■ | ■ | ■ | ■ |
| 8. Professional passenger-friendly staff | ■ | ■ | ■ | ■ |
| 9. Good quality vehicles and waiting facilities | ■ | ■ | ■ | ■ |
| **Cost-effective use of public money** | | | | |
| 10. Efficient and accountable use of public money that supports bus services | ■ | ■ | ■ | ■ |
| 11. Free bus travel for older and young people without undue additional expense | ■ | ■ | ■ | ■ |
| 12. All road passenger transport funded and governed together | ■ | ■ | ■ | ■ |
| **Buses part of a city's or region's strategic vision** | | | | |
| 13. Bus network purposely designed to achieve maximum public benefit | ■ | ■ | ■ | ■ |
| 14. One-area-one-network-one-brand | ■ | ■ | ■ | ■ |
| 15. Regeneration and development centred on enhancement of the public transport network | ■ | ■ | ■ | ■ |
| 16. Policies to grow bus use supported by policies to reduce car use | ■ | ■ | ■ | ■ |

*Bus franchising is taken here to be the London form of franchising.

Key: ■ Fully achievable ■ Partly achievable ■ Not achievable

Under deregulation, the rules permitting registration or deregistration of bus services mean that bus services can disappear at short notice, catching passengers unawares. This means it is impossible to ensure a **stable bus network** that passengers can trust. The same rules make it difficult to provide passengers with **easy-to-find comprehensive information** about all services in the area where they are travelling.

Bus fares should represent good value for money in comparison to driving. But under deregulation, bus fares in many areas are expensive, and local authorities that wish to implement **'affordable fares' policies** to increase bus patronage and support their wider social, environmental and economic aims have no means to do so.

World-class buses would have **professional, passenger-friendly drivers**. This requires bus companies to pay and treat their staff well, and train them in customer care. Under deregulation, bus drivers' terms and conditions have dramatically worsened. Even under London-style franchising, bus operators compete on costs by pushing down pay and conditions. In contrast, in other European countries where bus services are procured by franchising, there are sector-wide standards for wages and conditions.

A world-class bus system would also have **good quality vehicles and waiting facilities.** To some extent, this can be achieved under a deregulated system, and Stagecoach's 'Gold' and Arriva's 'Sapphire' services on prime routes are a good example of this. However, the threat of low-quality competition deters bus companies from investment in vehicles, and deters local authorities from investment in new passenger facilities.

## S4.2 Cost-effective use of public money

Public money accounts for over 40% of bus operator revenues, through funding for socially necessary services (paid for by local authorities), reimbursement of bus operators for trips made by concessionary pass-holders, and Bus Service Operators Grant (BSOG). Local authorities and national government also make substantial contributions through their funding for infrastructure, such as bus lanes, bus priority at junctions, real time passenger information, bus shelters and interchanges, and through bus schemes funded via national competitive grants programmes (e.g. Local Sustainable Transport Fund, Better Bus Areas Fund and Green Bus Fund).

Despite such a large contribution from the public purse, there is a **lack of effective public control over the way in which this money is spent.** Local transport authorities – and hence local citizens – are largely unable to influence the shape of the bus network that their payments support. There is no requirement for operators to consult passengers or funding bodies when a decision is made to alter commercial services, even though these services benefit from public money. Public money is being used in a way that is inefficient and unaccountable.

Deregulation **threatens the concessionary fares scheme** for older people and young people, because local authorities cannot control the level of payments they make to operators.

Deregulation also makes it difficult to **manage different transport services together, so as to maximise value for money.** Ideally, conventional bus services, demand-responsive buses, community transport, and dedicated services for health-care, education, and social services would be planned, managed and financed through the transport authority, so that efficiency savings could be made by combining different services where this made sense.

## S4.3 Buses part of a city's or region's strategic vision

Deregulation prevents cities and regions from **purposely designing their bus networks for maximum public benefit.**

In areas with more than one bus operator, it means that it is impossible to have a **'one-area-one-network-one-brand' approach** that boosts patronage – and civic image – by marketing the public transport system as a whole.

Deregulation **undermines the ability to 'design in' sustainable travel patterns in regeneration and development schemes**. This is because neither the planning authority nor the developer can guarantee the public transport services that a new development will receive. The lack of certainty makes it impossible to plan the infrastructure and facilities for future public transport services.

Deregulation also makes it more difficult to implement **an integrated transport policy**, in which actions to support bus travel and actions to reduce car use are used together to achieve economic, social and environmental aims.

# S5. Better bus governance: the role and duties of local authorities

Although deregulation is a major obstacle to creation of a world-class bus system, regulatory reform on its own will not lead to the transformation that is required. This is because some local authorities lack an adequate understanding of the value of bus services to their local communities, and would be poorly placed to become the 'guiding mind' in charge of improving local bus services.

Local transport authorities should therefore be given a statutory duty to improve bus services and increase local bus use.

Local authorities also need increased powers to be able to achieve these duties. These powers must enable them to shape local bus networks to provide the best possible service for the available funding.

Incremental extension of existing powers within the current deregulated framework will not be sufficient to enable local authorities to achieve this. Despite years of incrementally stronger partnerships, bus networks continue to fall far short of what users would want. This is because commercial freedoms regarding routing and pricing are fundamental to the deregulated system of which partnership models are part. No partnership model – no matter how it is framed – can achieve the transformative change that is needed: it cannot enable a local authority to plan and deliver a comprehensive area-wide bus network; cannot enable creation of a single easy-to-understand fares structure; cannot allow timetables and services to be coordinated; cannot guarantee network stability and easy-to-find comprehensive information; and cannot enable costs of concessionary fares payments to be brought under control.

Local transport authorities therefore need new powers over buses. The first logical step is for local authorities to be able to franchise bus services. Beyond that, a move to municipal bus operation would offer even greater benefits.

# S6. Franchising powers

## S6.1 Financial gains from franchising

If the current deregulated system were replaced by franchising throughout Britain, our calculations suggest it would generate net financial gains in the order of £340 million per year. These arise from retention of 'excess' profit (the profit being made by bus operators outside London, compared to the profit made under the regulated system in London); patronage and revenue increases over time as a result of unified network design and simplified ticketing; and efficiencies in provision of services that are currently tendered (Table S2).

These financial gains would be more than enough to restore recent cuts to BSOG and to local authority support for buses, and over time, as patronage and revenue rose, to provide additional funding for new services over and above those that have been cut since 2010.

**Table S2: Financial gains from bus franchising, compared to recent cuts**

| | **Annual gain (cost) in Britain excluding London (£million)** |
|---|---|
| **FINANCIAL GAINS FROM FRANCHISING** | |
| **Retention of excess profit** | 114 |
| **Unified network design / simplified ticketing** | 168 |
| **Efficiencies in provision of currently tendered services** | 79 |
| **Lower profit leakage on reinstated services** | 1 |
| **COSTS OF FRANCHISING** | |
| **Additional staff in transport authority** | (13) |
| **Bidding costs for commercial operators** | (9) |
| **NET GAINS** | 340 |
| **RESTORATION OF FUNDING CUTS** | |
| **Cuts to local authority support for buses since 2010** | (76) |
| **Cuts to BSOG since 2010** | (113) |

Explanatory notes and figures for England only are given in Chapter 5.

## S6.2 Making franchising the 'default option'

Once franchising powers become available to local authorities, their Introduction is likely to be gradual, with some waiting to see the experience of the 'early adopters'. Some councils will require a nudge to realise the benefits that bus users want to see from re-regulation. This might be from seeing the effects of franchising in the local authorities that do it first. As evidence of the effects of franchising accumulates, it may be appropriate for central government bus improvement funding programmes to be conditional on local authorities taking up re-regulatory powers.

Even in local authorities that have the expertise and the will to re-regulate, the opportunities will not be taken up if they see significant obstacles. The North East

Combined Authority (NECA), one of the best-resourced local transport authorities, was unable to succeed with Quality Contract legislation against the opposition of bus operators. To achieve large-scale reform, re-regulation must become easily achievable by local authorities. National government must remove the legal burden from local authorities by making the legislative and legal case at national level that re-regulation is justified.

### S6.3 Making a success of franchising

There are different models for franchising: contracts can be let for individual bus routes (as in London); for groups of routes at the depot level (as proposed by NECA); or for a whole region or city (as in other European countries).

Each option has pros and cons. Factors to be taken into account are the need to minimise disruption to staff when franchises change hands (which is worst under the London model), and the effect of franchising on small operators (who risk substantial losses under region-wide franchising). The best option may be depot-level franchising with some actions to support small operators, such as franchising some routes individually, or taking municipal ownership of some depots and vehicles.

Legislation to give franchising powers to local transport authorities should require local authorities to adopt minimum staff terms and conditions that must be met by all operators. This would prevent competition taking place on the basis of a 'race to the bottom' in employment terms and conditions, which has happened in London and has resulted in industrial relations problems and strikes by bus workers.

Bus sector statutory joint industrial councils should be established for franchised areas. These would enable local authorities and bus operators to contract together in a way that encourages efficiency but does not exploit staff. Legislation should also make it explicit that the TUPE Regulations (Transfer of Undertakings (Protection of Employment) Regulations) apply to bus franchising, to protect employees when franchises change hands.

## S7. A step beyond franchising: re-municipalisation

### S7.1 International evidence on municipal operation

There is growing interest in municipalisation of services in continental Europe, spanning across the water, waste management and energy sectors as well as local transport. This is driven by a perception that outsourcing (i.e. privatisation) has not delivered the innovation, efficiency improvements and cost savings that were promised, and that services delivered under public ownership perform better.

Municipal transport companies are the dominant providers of public transport in most German and Austrian cities. In Germany, 88% of all trips on local public transport (bus, tram and local trains) are on services provided by publicly-owned operators. Private operators are mostly small, and account for only 7% of trips (with the remaining trips provided by operators in mixed public / private ownership).

Evidence from Vienna shows that municipal operation delivers services which are highly rated in terms of service quality, highly cost-efficient, and provide a strong basis for investing in network expansion.

In both Germany and Austria, the municipal transport companies work alongside private sector operators. Where services are contracted from private operators (for example, for suburban routes), German cities have a deliberate policy of dividing tenders into small lots in order to make them attractive to small operators.

In contrast, most local bus services in France have historically been provided by national companies under franchise, dominated by privately-owned Transdev and Keolis, which is in mixed public / private ownership. However, as noted in Section S3 above, some municipalities and Départements are switching away from franchising to run bus services themselves, with about 25 having taken this step since 2003. The reasons given for the switch are to reduce costs while maintaining services. The change is taking place equally in places with right-wing and left-wing administrations.

In the USA, there has also been a slow move in recent years towards in-sourcing (municipalisation) of public services.

All these countries have a more pragmatic approach than Britain, recognising the potential advantages of municipal service provision as a monopoly provider or as part of a managed market.

Local authorities in Britain should be able to explore the potential benefits of municipal bus operation too. If they conclude that in their particular local circumstances it would be beneficial, they should be able to establish a new municipal bus operator.

## S7.2 Financial gains from municipal operation

Municipal operation would deliver greater financial gains than franchising. Instead of being used to pay dividends to shareholders, the profit from commercial routes could be used to support non-commercial routes, reducing the amount of subsidy required from the local transport authority. As with franchising, there would be patronage and revenue increases over time as a result of unified network design and simplified ticketing, and there would be efficiencies in the provision of services that are currently tendered. The total gain from municipal operation would be of the order of £506 million per year in Britain excluding London (Table S3).

This is substantially greater than recent cuts to bus funding, so would allow both for restoration of services that have been cut, and investment in new services.

**Table S3: Financial gains from municipal operation, compared to recent cuts**

| | **Annual gain (cost) in Britain excluding London (£million)** |
|---|---|
| **FINANCIAL GAINS FROM MUNICIPAL OPERATION** | |
| **Retention of excess profit** | 217 |
| **Unified network design / simplified ticketing** | 168 |
| **Efficiencies in provision of currently tendered services** | 118 |
| **Lower profit leakage on reinstated services** | 3 |
| **TOTAL GAINS** | 506 |
| **RESTORATION OF FUNDING CUTS** | |
| **Cuts to local authority support for buses since 2010** | (76) |
| **Cuts to BSOG since 2010** | (113) |

Explanatory notes and figures for England only are given in Chapter 5.

## S7.3 ‘Whole network contracts’ for municipal operators

A few British towns and cities still have a municipal bus operator. However, these towns and cities do not have the full benefits of municipal operation that are available in Austria, France and Germany. Municipal bus companies in Britain are vulnerable to ‘cherry-picking’ incursions by competitors that could destroy them. It is also more difficult to achieve the network benefits of a simple area-wide fares structure and comprehensive information, because tendered services may be operated by other companies.

Under EU law, a local authority that owns its bus company is not obliged to put bus services out to competitive tender. However, the law in Britain forbids direct award of contracts to municipal operators. In line with the government’s desire to devolve decision-making to local level, the law should be changed to allow direct award of all or part of a bus network to a municipal bus operator.

## S7.4 Management of municipal bus companies

Evidence from successful municipal companies in Britain and mainland Europe suggests that efficient operation is facilitated by:

- An arms-length relationship between the local transport authority and its municipal operator, with the operator having sole responsibility for operational decisions and effective cost control
- Local transport authority being able to exercise strategic control, through a majority shareholding and a deciding vote on the company board
- A multi-year financing agreement between the local authority and the operator, setting out objectives and operational standards
- Investment strategy that supports innovation in order to increase efficiency
- Periodic benchmarking against other cities
- Joint purchasing alliances with other local transport authorities and operators

Governance structures of municipal bus companies in Germany and Austria offer a model that would be beneficial in Britain. This involves a supervisory board of non-executive directors, who set the strategic direction, plus an executive board. The supervisory board would include representatives of the local authority, who would have a deciding vote; individuals with specific professional expertise; employee representatives; and passenger representatives, including a person who is able to represent disabled passengers.

Under EU law, a local transport authority that directly awards a contract to run local bus services to its municipal company must exercise control over that municipal company that is ‘similar to that exercised over its own departments’. This would be achieved through a majority shareholding and a deciding vote on the company board.

## S7.5 Expansion of municipal operation

Once legislation had been passed to allow direct award of part or all of a bus network to a municipal company, towns and regions that wanted to take advantage of this would have several options. They could:

- Set up a new municipal bus company (as many French local authorities have)

- Buy an existing commercial bus operator
- Team up with a local authority that already owns a municipal company

Which option is preferable will depend on local circumstances, including availability of land for new bus depots; financing costs for purchase of new vehicles or whole bus companies compared with vehicle rental costs; quality of existing local operators and their willingness to sell at a reasonable price; and whether a municipal operator already operates in a neighbouring authority.

## S8. Service standards

Once local authorities have a statutory duty to improve bus services and increase bus use, and the powers to match, it becomes important to set standards for network coverage and service design, so that local people can see how well their council is discharging its duty, against an objective measure.

National governments in England, Wales and Scotland should work with local transport authorities to establish a common approach to network coverage standards that can be applied to all types of geographical area. This should include both minimum and aspirational standards.

It would also be useful to develop model service design standards for vehicle quality, information provision, waiting facilities and ticketing, so that local transport authorities taking over responsibility for the bus network had a resource to draw upon describing what a good service looks like in all these respects.

'Quality incentive contracts' similar to those used by Transport for London would provide an effective way for local transport authorities to work with operators to improve performance. These contracts offer bonus payments for performance that is better than an agreed standard, and deductions for performance that is worse than the standard. Quality incentive contracts would replace the current responsibility of the Traffic Commissioners to fine bus operators who fail to meet basic standards for bus punctuality.

## S9. Bus governance: structures

A study by IPPR has recommended establishing 'Total Transport Authorities' covering a larger area than most existing local transport authorities, and with responsibility for all forms of local transport. We support this conclusion.

Examples from Europe show the benefits of all modes of public transport being coordinated at this larger geographical scale. For example, the Munich Verkehrsverbund (Transport Association) is responsible for managing public transport in the city of Munich and eight surrounding districts. It is constituted as a limited company, owned by the city, state and district authorities. It designs and develops the public transport network, sets the timetable and unified fares system, and provides passenger information. Buses are operated by municipal bus company MVG, and by private companies under contracts issued by MVV. The Transport Association works to the principle "One network, one timetable, one ticket", bringing substantial benefits for users compared to the uncoordinated alternative in British cities and regions.

The area (and population) covered by MVV is somewhat larger than the combined area of Nottinghamshire, Nottingham, Derbyshire and Derby.

The move towards Combined Authorities, with responsibility for integrated transport, would provide a good basis for establishing Total Transport Authorities with similar powers and responsibilities to MVV.

## S10. Funding for bus services

Funding for buses in Britain is insufficient to provide a world-class service. The case for more funding is presently undermined by poor governance arrangements that lead to inefficient use of public money. But once bus governance is reformed, it will become feasible to increase investment in bus services, from a range of sources.

Total Transport Authorities should have more powers to raise income locally for their public transport networks, as is common in other countries. The most appropriate means of raising income at local level will vary between areas: for example, in urban areas a local payroll tax might be appropriate, whereas in National Parks a visitor lodging levy might be preferred.

Looking internationally, there are at least 16 different ways in which local authorities raise revenue for public transport, of which only two are widely used in Britain. The range of funding sources reflects the fact that the beneficiaries of world-class public transport extend beyond its passengers: for example, business benefits from a good public transport network that makes its premises accessible to its workforce.

In France, the Versement Transport local payroll tax is used by most urban transport authorities to fund public transport. It raises £5 billion per year for public transport (of which £2.6 billion is raised outside Paris / Ile-de-France). It funds both public transport enhancements and operating costs.

In England, local authorities which become part of Combined Authorities with elected mayors will have powers to levy an extra 2p in the pound on business rates to pay for infrastructure projects. At the maximum, if exercised by all English local authorities including London, this could raise about £1 billion – that is, only a fifth of the amount that is raised by Versement Transport, only for capital schemes, and not dedicated to public transport. In comparison with other countries, Britain is unusual in offering such little opportunity to local authorities to raise funds locally.

Alongside greater revenue-raising powers for local authorities, national funding for bus services will remain essential.

## S11. Conclusions

Four broad conclusions can be drawn from the research compiled in this report:

- Deregulation that gives bus operators freedom to decide where to run their services and how much to charge for them makes it impossible to achieve many functions essential to a good bus network.
- Deregulation comes at a heavy financial cost.
- Extensive and deep changes to the governance of Britain's bus services are needed, for which national government must set a legislative and legal presumption in favour of re-regulation.
- Putting Britain's bus services on a sustainable financial footing requires regulatory reform as well as financial reform.

Detailed conclusions and recommendations are as follows:

**1. Duties on local transport authorities:**

- Local transport authorities should be charged with duties to improve bus services and increase local bus use.

**2. Powers for local transport authorities to re-regulate buses:**

- Local transport authorities should have powers to re-regulate buses, because on-street competition is incompatible with purposely designing a bus network for the public good.

**3. Scale of efficiency savings from franchising:**

- Franchising would represent better value than the deregulated system. It would immediately liberate sufficient funding to restore cuts made since 2010, and over time would generate additional revenues sufficient to add new services.

**4. Feasible speed of reform of bus governance:**

- Introduction of franchising is likely to be gradual, with some local authorities waiting to see the experience of the 'early adopters'.
- National government must take responsibility to remove all legal obstacles to re-regulation for local authorities and make franchising the 'default' option.

**5. Optimum scale of franchised operations:**

- A successful transition to franchising requires a balance between minimisation of disruption to staff and avoidance of excessive risk for small operators.
- Transport authorities are likely to achieve greatest operational efficiency and least staff disruption through depot-level franchising, but this approach should consider risk-reducing options to facilitate bids from small operators, such as keeping a proportion of routes on a route-by route franchise or taking municipal ownership of some depots and vehicles.

**6. Efficient and fair industrial relations:**

- Legislation that gives transport authorities franchising powers should direct authorities to adopt minimum staff terms and conditions that must be met by all operators.
- Bus sector statutory joint industrial councils should be established for each franchised area and at national level to set staff pay, conditions and pensions.
- Explicit rules to apply TUPE to bus franchising are required.

**7. Powers to create a new generation of municipal bus operators:**

- Britain should permit local transport authorities to emulate international examples of good quality cost-efficient municipal service provision.

**8. Whole network contracts for municipal operators:**

- Laws in Britain should be changed to allow direct award of all or part of a bus network to a municipal bus operator, in line with EU law.

**9. Scale of savings from municipal bus operation:**

- Savings from municipal operation would be greater than from franchising.

**10. Management of municipal bus companies for the public good:**

- Municipal bus company structures should change, to legally permit direct award of whole-network contracts and to create appropriate owner-operator relationships.
- Municipal bus companies should be subject to ultimate control by their

owning authorities but with 'arms-length' management freedoms.

- A supervisory board structure offers a way to achieve this within EU law.
- A supervisory board also facilitates representation of bus company staff and bus passengers.

**11. Routes to expand municipal bus company provision:**

- Once legal hurdles are removed, local transport authorities would have several ways to establish municipal bus company operations. For local authorities close to existing municipal bus networks inter-authority collaboration could offer an easy and rapid option to gain the benefits of municipal bus company operation.

**12. Network coverage standards and service quality standards:**

- National government and local transport authorities should develop network coverage standards.
- Contractual arrangements with operators should take the form of quality-incentive contracts and local transport authorities should take over the Traffic Commissioners' powers for licensing and enforcement of service standards.

**13. Scope and scale of transport authorities:**

- Local transport authorities should become 'Total Transport Authorities' responsible for all forms of road passenger transport (and other local public transport).
- Total Transport Authorities should operate at a sub-regional level rather than the level of individual local authorities (except where these already have sub-regional span).

**14. Funding bus services:**

- Local authorities should receive greater powers to raise more money for buses; national government should support local authorities in accessing presently available powers to raise funds locally and simplify procedures where necessary; restrictions on using parking and traffic fines to fund better bus services should be reversed.
- Local transport authorities should be the conduit for all funding for road passenger transport (all local and national funding from all departments).
- National funding for buses should be on a rolling five-year funding cycle that provides planning certainty.
- All national funding to local transport authorities for buses should be ringfenced for that purpose and should provide incentives to re-regulate local bus networks.
- BSOG funding should be devolved (where this has not already been done), on condition that local transport authorities agree to move to a franchised bus market or to deploy a municipal bus operator to their entire network.
- Concessionary fares are a national policy and should be fully funded by national government.
- National options to raise additional funds for buses and other public transport should be considered, including a nationwide road user charging scheme.

# Full Report

# 1. Introduction

## 1.1 Context and purpose of this study

Bus users in the UK inhabit different worlds, depending on where they live. In the first world, Londoners experience a world of frequent bus services running on a network and timetable designed by a transport authority that has the powers and funds to ensure that the system works as a whole.

In the second world, citizens of Britain's other big cities experience some good bus services where routes are commercially viable but with serious deficiencies in the bus network in places or at times that are commercially unattractive. In these cities the transport authorities are doing their best to fill the gaps but are unable to design the network to operate as an integrated whole or to use revenues from profitable routes to cross-fund marginal services, and face protracted and expensive processes even to provide obviously necessary basics like integrated smart ticketing and real time information.

Rural bus users live in a third world where they are only likely to have a bus service that operates at times they want if they live on one of the busiest inter-urban corridors, which are attractive to operators because large operating margins are achievable. Meanwhile, the local transport authorities struggle to justify and maintain subsidy (to the same operators) to run services to smaller settlements.

This report is about seizing the chance to transform our bus services for the better. For the first time in thirty years moves are afoot to fundamentally change the structure of the bus system in Britain[1]. Yet this opportunity for positive change comes at a time of financial crisis for local transport authorities, when bus users are fighting to simply preserve the services they have, particularly in rural areas.

At this moment we believe it is critical to step back, ask what we want from our bus system and remind ourselves of what a high quality bus network can deliver, because Britain has largely lost sight of that vision.

What are the economic, social and environmental benefits we want our buses to give us? To what degree are these benefits likely to be realised from a bus network that is left to evolve so as to maximise the profits of bus companies - the network that most of Britain now has after three decades of evolution under unregulated competitive pressure? What are the possibilities for establishing our bus system on a wholly different – world-class – level? Could a world-class bus system for Britain replace the prevailing downward spiral with a virtuous circle of service improvements, rising bus use and rising fare revenue?

These are the questions we seek to address in this report.

[1] A radically new approach was signalled when Chancellor George Osborne promised "new powers over transport" to Manchester (Manchester Evening News, 03.11.2014).

## 1.2 Structure of this report

We start in the next section by looking back at the history of bus governance in Britain. Chapter 2 then takes a long view to consider what the data trends, such as the change in levels of bus use, tell us about the impact of deregulation.

Chapter 3 turns to the financial consequences of deregulation, and in particular calculates the size and significance of bus company profits in the system as it now stands.

Chapter 4 asks what characteristics a world class bus system would have and analyses the extent to which the present system of governance of bus services helps or hinders us in achieving these.

Chapter 5 looks to the future and considers the reforms that are needed in order to put our bus system onto a trajectory towards world-class.

Chapter 6 provides an overview of findings and summarises our conclusions.

## 1.3 How did we get here? A long view of bus regulation

**1930-1985: from regulation to deregulation**

From 1930 to 1980 successive governments of all political persuasions considered it was in the best interest of the public to regulate bus operations. The Road Traffic Act 1930[i] had established 'traffic commissioners', and equipped them with powers to control the quality and quantity of bus services. They also had powers to restrain fares at reasonable levels, and if necessary to fix fares to 'prevent wasteful competition' amongst transport service providers. The legislation was designed so that services should be developed to provide a comprehensive network[2], which it was recognised may require cross-subsidy of unprofitable routes by profitable routes. Within this context licenced operators effectively received monopoly rights. Although a majority of bus operators were publicly owned private operators played a significant role[ii].

By the 1960s rising car ownership was rapidly depressing bus use and bus company profitability, with the result that companies owned by the government and local authorities started to become financially burdensome. The 1968 Transport Act tried to address this problem. The National Bus Company and the Scottish Bus Group were formed to run services where nationally-owned bus companies were already dominant (outside the major cities). Within the metropolitan areas, where municipally-owned operators dominated, integrated transport authorities were established and were given duties to secure public transport to meet the needs of their areas[iii]. Nevertheless, the underlying trend from bus to car use continued, and subsidies continued to rise to maintain equivalent service levels.

[2] So, for example, traffic commissioners were charged with assessing 'the needs of the area as a whole... including the provision of adequate, suitable and efficient services, the elimination of unnecessary services and the provision of unremunerative services, and the coordination of all forms of passenger transport, including transport by rail' with explicit instructions to assess 'the extent to which the proposed service is necessary or desirable in the public interest' and 'whether the proposed routes are already adequately served' and to ensure that 'the fares shall not be unreasonable' and that 'where desirable in the public interest the fares shall be so fixed as to prevent wasteful competition with alternative forms of transport'.

By the 1980s the government of the day was blaming regulation for the ills of the bus sector and had decided that private sector provision of bus services would bring benefits all round. In its 1984 Buses White Paper the government said:

> *"Without the dead hand of restrictive regulation fares could be reduced now on many bus routes and the operator would still make a profit. New and better services would be provided. More people would travel."* [iv]

Long distance coach services were first to be deregulated, through the Transport Act 1980[3]. Local bus services in England, Wales and Scotland were then deregulated by the Transport Act 1985[4], with the exception of London (Northern Ireland was also not included). Bus companies could henceforth register any bus route they wished as a commercial operation. The traffic commissioners lost many of their former powers so that bus companies could set fares, timetables and routes as they wished, with no requirement for consultation with users or local authorities. If local authorities wished to provide services on routes that the operators deemed uncommercial they would have to do so by inviting tenders for their operation.

The National Bus Company was split into 72 subsidiary companies which were sold by 1988 (with the Scottish Bus Group undergoing a similar process as a result of separate legislation in 1989)[v]. Local authorities who ran bus operations as a services department of the council were obliged to establish these as 'arms-length' companies and were given powers to sell them off[vi]. Although not obliged by the legislation, the large metropolitan authorities were given to understand that if they did not sell off their bus operations further legislative steps would be taken to force them to do so[vii]. As of 2015, all but 12 of the municipally-owned bus operators had been sold[5].

In London bus operations continued to be regulated, under rules set by the London Regional Transport Act 1984. Plans for bus deregulation in London were eventually dropped in 1993, but London Buses Ltd was nevertheless privatised. The resulting situation in London is generally described as 'franchising': Transport for London procures bus services from many private operators, setting routes, timetables, fares and quality standards[viii], and retaining the fare revenue to use as it wishes to cross-subsidise socially necessary services from more profitable routes[6].

**1985-2015: steps back towards regulation**

The initial assumption was that the deregulated bus industry would need no policing beyond that of the official consumer protection and competition bodies, the Office of Fair Trading and the Monopolies and Mergers Commission (both of which did have cause to be active as a result of predatory and anti-competitive practices). However, by 1993 the government had decided some rule changes were necessary in light of 'bus wars' that were causing congestion in some city centre areas. Rival bus companies were jamming the streets by running competing vehicles in quick succession to capture trade on the most potentially lucrative routes. The government realised it had to clarify traffic commissioners' powers, to ensure they could regulate the number of buses used to provide a service, to control use of duplicate buses[ix]

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[3] Long distance coach services are mentioned here for completeness. This report will concentrate on local bus services.
[4] The main provisions of the Transport Act 1985 came into effect in October 1986.
[5] Municipal bus operators remain in: Blackpool, Cardiff, Dumfries and Galloway, Edinburgh/Lothian, Halton, Ipswich, Newport, Nottingham, Reading, Rossendale, Swindon, Warrington.
[6] TfL does not, however, regulate bus workers' pay and conditions, although it could do so through its franchising system.

and to encourage them to take a more active role in policing other abuses[7]. The Competition Act 1998, which created the Competition Commission to replace the Monopolies and Mergers Commission, later provided further powers against anti-competitive practices by bus operators[8].

Although the Competition Act 1998 may have helped regulate some negative aspects of bus competition, if anything it further restricted the possibilities to achieve sensible agreements amongst operators that would benefit passengers, particularly multi-operator tickets. By 2006 it was evident to the Office of Fair Trading that it should publish a 'block exemption' code[x] to help bus operators and local authorities negotiate the legal minefield resulting from competition law designed to prevent collaborative arrangements amongst competitors. The block exemption code specified types of multi-operator ticketing arrangement that operators would be allowed to agree without being prosecuted.

By 2000 it had been recognised that it could be beneficial for local authorities to be able to set up legally-binding agreements with bus operators, and the government legislated for this in the Transport Act 2000. The legislation gave powers to establish statutory 'quality partnerships' to raise service standards by ensuring that investment from the local authority in improved facilities such as bus priority measures would be followed by increased investment from operators in newer vehicles. Operators not meeting the standards specified in the quality partnership could be prevented from using the facilities in question. However, the legislation explicitly excluded specification of higher frequency services or other timetable enhancements[xi]. The Transport Act 2008 increased the powers available under statutory quality partnerships to include specification of bus service frequencies, timetables and maximum fares. However, most local authorities have found it more feasible to work through voluntary partnership agreements, partly due to the administrative burden of statutory quality partnerships and partly because bus operators are resistant to binding agreements. As of 2015 only six statutory quality partnerships have been instituted.

The Transport Act 2000 had also recognised that local authority areas other than London might benefit from adopting a similar system of bus franchising, with bus routes fully defined by the local authority and the entire network in a particular area competitively tendered[xii]. Such 'quality contract schemes' would effectively suspend deregulation locally, exclude further bus operations and remove on-street competition. However, the legislation did not provide powers of the same scope as those available to London and was drawn with many strictures, including a requirement for local authorities to prove that a quality contract scheme 'is the only practicable way of implementing the policies set out in their bus strategy'. By 2008 it was evident that the hurdles for quality contract schemes had been set at an unachievable level, so the Transport Act 2008[xiii] defined five replacement conditions[9]

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[7] For example, a public inquiry chaired by the Traffic Commissioner for the North West temporarily banned Stagecoach from running services on three routes in Manchester after it obstructed other operators in order to take their customers (Independent 03.12. 2000 *Stagecoach found guilty of bus war dirty tricks*).

[8] However, because vulnerable small operators had already been forced out of business, this has been described as 'shutting the stable door after the horse had bolted, in that the more obvious abuses had occurred in the early stages of deregulation' (White 2010 *The conflict between competition policy and the wider role of the local bus industry in Britain* Research in Transportation Economics 29 (1) pp 152-158 ISSN 0739-8859).

[9] These require the local authority to show that the proposed scheme will: increase bus use; raise service quality; help achieve local transport policies; achieve those policies in a way which is 'economic, efficient and effective'; and only result in adverse effects on bus operators that are 'proportionate' to benefits obtained from the scheme.

and in addition extended the allowable length of contract under the scheme. However, the onus remained on local authorities to prove the benefits of potential schemes in the face of opposition by large bus companies that were likely to fight every step of the process and sufficiently well-resourced to entangle local authorities in expensive legal procedures. As of 2015 no quality contract schemes have been put in place. Only the North East Combined Authority has made an application, for the Tyne and Wear area, but despite very extensive preparatory work, that was rejected in November 2015 by the Quality Contract Scheme board set up under the legislation to oversee applications.

# 2. What has happened since deregulation

## 2.1 Overview of the evidence

In order to consider how our bus services could be improved, it is useful to understand how things have changed in the 30 years since bus deregulation. This chapter examines long-term changes in bus patronage, the service provided, fares paid by passengers, and the amount of public money used to support bus services. We also look at how bus operating costs, and various factors affecting operating costs, have changed. Finally, we look at how the nature of the bus industry changed in the period since deregulation, as a result of buy-outs and consolidation.

Sections 2.2 to 2.9 describe the main trends in detail[10]. The **key messages** are as follows:

- Deregulation was supposed to lead to an improvement in bus services that would reverse the previous long-term decline in patronage and result in more people travelling by bus. This did not happen – and in the metropolitan areas[11] in particular there was a catastrophic fall in bus use, such that patronage in these areas fell from about 2 billion trips per year before deregulation to about 1 billion trips per year now. Patronage also fell in the non-metropolitan areas, although with some individual exceptions.
- The pattern in London, where bus services were not deregulated, was markedly different. Here, bus patronage has doubled since deregulation – from about 1 billion to over 2 billion trips per year between 1985/86 and 2014/15.
- This difference *cannot* be explained solely by differences in funding. In the 15 years after deregulation, public funding for bus services fell further in London than in the metropolitan areas. Yet in this period, bus patronage in London held steady and then slightly increased (with an overall change of +17%), whereas patronage in the metropolitan areas fell by 42%.

Outside London, the period after deregulation can be divided into **two main phases**:

- An initial phase, from 1985/86 to the mid-to-late 1990s, saw intense on-road competition in some towns and cities, and unstable conditions as operators struggled to gain market share. Operated bus kilometres increased, but the extra services generated very little additional passenger traffic. The bus fleet got older, with more old (12+ years) buses kept in service, partly because service quality (including vehicle quality) was not seen as a priority and partly because some operators in areas of active competition felt too financially exposed to invest in fleet replacement.
- A second phase, from the mid-to-late 1990s to the present, in which on-road competition declined and bus operators had largely established their own 'territories', so that defensive action to deter potential competition (including high service frequencies on attractive routes) became less prevalent. Operated bus kilometres fell. Patronage continued to fall, especially in the metropolitan areas.

[10] For the sake of simplicity, this chapter focusses mainly on England. However, where data are available for Wales and Scotland, the key trends are summarised in tables, or below the relevant Figure.
[11] 'Metropolitan areas' are the English metropolitan areas outside London. 'Non-metropolitan areas' are all other parts of England outside London.

Other trends since deregulation are that:

**Fares**

- Bus fares have increased substantially, so that in real terms they are now around double what they were in the mid-1980s, while the cost of motoring has fallen.

**Public funding**

- Public funding of various types forms a significant proportion of the overall turnover of bus operators, in all areas: over the last two decades it has formed about 40% of turnover in metropolitan areas, nearly 30-50% of turnover in non-metropolitan areas; and approximately 25-50% of turnover in London.
- London and the metropolitan areas were treated rather similarly in terms of public funding in the period between the mid-1980s and 2000, but showed differing outcomes in terms of patronage: stable in London but falling in the metropolitan areas. After 2000, London had increased public funding and was able to use this effectively to stimulate increased bus use.
- Non-metropolitan areas experienced a substantial rise in public funding in the form of payments to operators for travel by concessionary pass holders in 2006/07, but this increase in public funding (and operator turnover) did not result in a significant increase in overall patronage.

**Efficiency and effectiveness**

- Unit operating costs (measured *per bus kilometre*) fell by 40-50% in the period between the mid-1980s and 2000, in all areas including London. This increase in *efficiency* was largely at the expense of bus company staff. The numbers of maintenance staff and administrative staff were reduced and remaining employees experienced reductions in wages and poorer terms and conditions. Since 2000, unit operating costs have been rising, probably due to greater attention being given to service quality; increased congestion; and because wages had to rise in order to attract and retain staff, although bus sector wages remain far below their previous parity with average pay for all other occupations.
- Outside London, costs *per passenger trip* remained broadly unchanged in the period after deregulation, despite the fall in operating costs for each bus kilometre, because the number of passengers fell at a similar rate. Since the mid-1990s, costs per passenger trip outside London have increased by nearly a fifth. The overall *effectiveness* of the bus system outside London has thus got worse. In London, overall effectiveness has improved (that is, costs per passenger trip have generally fallen).

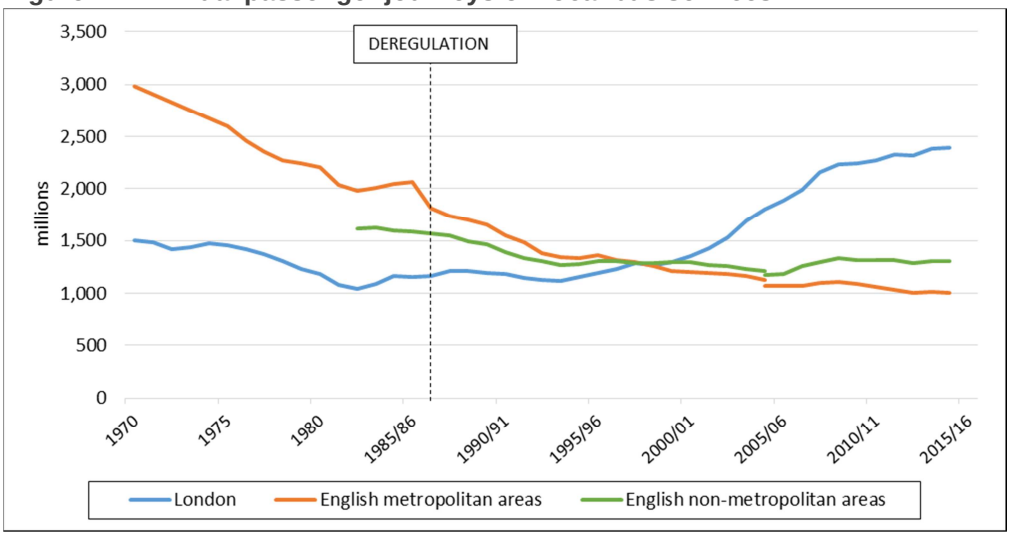
**Nature of the bus industry**

- Shortly after deregulation, the bus market was characterised by many small-to-medium sized operators. A process of mergers and takeovers radically changed this, so that there is now an oligopoly at national level, with five large operators. Locally, roughly a third of urban areas have one near-monopoly operator, and another third have two dominant operators.

## 2.2 Bus patronage

Bus patronage was in decline during the 1970s, with a very similar pattern in both the metropolitan areas and in London, as shown in Figure 2.1. However, in the early 1980s, this trend was briefly but sharply reversed, as a result of a deliberate policy by the Passenger Transport Authorities in the metropolitan areas of supporting bus services and keeping fares down.

**Figure 2.1: Annual passenger journeys on local bus services**




Source: Department for Transport (DfT) 2015 *Statistical Table BUS0103*. The break in the data series (except London) is due to changes in the estimation methodology in 2004/05.

Following abolition of the metropolitan county councils in March 1986, and the imposition of strict expenditure limits on the PTEs, the nascent revival in patronage in the metropolitan areas turned into a dramatic fall. Patronage dropped by 13% in a single year between 1985/86 and 1986/87. After deregulation (which came into effect in October 1986), the trend in the metropolitan areas diverged markedly from the trend in London: bus patronage in the metropolitan areas fell at about the same rate as during the 1970s, while patronage in London remained stable for a decade, from 1985/86 until the mid-1990s, and then slightly increased. After Transport for London was created (and funding for bus services rose) in 2000, bus patronage in London increased rapidly, while the decline in the metropolitan areas continued, albeit at a slightly lower rate.

In the thirty years since deregulation, bus patronage in the metropolitan areas has halved (-51% between 1985/86 and 2014/15), while in London it has doubled (+108%) (Table 2.1). In broad terms, the effect of this is that annual bus passenger trips in London have risen from about 1 billion to over 2 billion, while bus passenger trips in the metropolitan areas have fallen from 2 billion to 1 billion.

The different trends between London and the metropolitan areas cannot be attributed solely to the substantial increase in funding for bus services after the creation of Transport for London in 2000. As Table 2.1 shows, in the fifteen years after deregulation, bus patronage increased in London while falling elsewhere. This pre-dates the increase in funding for bus services from 2000 onwards.

The non-metropolitan areas saw a less dramatic decline in patronage in the decade after deregulation (arguably a continuation of the pre-deregulation trend), followed by a period of relative stability from the mid-1990s to 2014/15. Overall, bus patronage in these areas has fallen by 18% in the period since deregulation. There are some individual exceptions to this: in the last decade, patronage growth has been at rates comparable to that achieved in London in 14 out of 82 non-metropolitan local

transport authorities in England (including for example Brighton and Kent), almost entirely in the south-east or south-west of the country. However, in most of the rest of England, the trend has been downward. Patronage trends since deregulation in Wales and Scotland are similarly negative.

**Table 2.1: Change in annual passenger journeys on local bus services since deregulation (millions)**

| | London | English metro-politan areas | English non-metro-politan areas | Wales | Scotland |
|---|---|---|---|---|---|
| **1985/86** | 1,152 | 2,068 | 1,582 | 163 | 671 |
| **2000/01** | 1,347 | 1,203 | 1,292 | 119 | 458 |
| **2014/15** | 2,394 | 1,004 | 1,303 | 103 | 420 |
| **Change:** | | | | | |
| **85/86 - 00/01** | **+17%** | **-42%** | **-18%** | **-27%** | **-32%** |
| **85/86 - 14/15** | **+108%** | **-51%** | **-18%** | **-37%** | **-37%** |

## 2.3 Bus services operated

The marked decline in bus passenger journeys outside London in the period after deregulation occurred *despite* the fact that operators began running more bus services in these areas once the market was opened up to competition.

As Table 2.2 and Figure 2.2a show, in the nine years following deregulation (1985/86 to 1994/95), bus vehicle kilometres increased by 25% in the metropolitan areas and 27% in the non-metropolitan areas. There were similar increases in Wales and Scotland.

These changes were due to a combination of head-to-head competition as rival operators struggled to gain a dominant position in local bus markets; and increased service frequencies on some routes as operators acted defensively to avoid leaving profitable gaps that might be vulnerable to incursions by competitors. Commercial operators withdrew from less profitable routes in order to concentrate their resources on the more profitable routes, leaving local transport authorities to step in to fund socially important but non-commercial services.

For example, in Strathclyde, vehicle kilometres increased by 13%, but it became necessary for the Passenger Transport Executive to tender 16 million vehicle kilometres of subsidised services to fill gaps caused by withdrawal of services by commercial operators. Academic researchers commented that the increase in bus kilometres in Strathclyde involved increased service frequencies on routes that already had high levels of service, and often consisted of uncoordinated services that were bunched and irregular[xiv] [xv].

The overall effect was that vehicle kilometres on the commercial network shortly after deregulation were as high as on the whole network before deregulation, as can be seen in Figures 2.2b and 2.2c.

**Table 2.2: Change in operated bus kilometres on local bus services since deregulation (millions km)**

| | London | English metro-politan areas | English non-metro-politan areas | Wales | Scotland |
|---|---|---|---|---|---|
| **1985/86** | 273 | 574 | 849 | 95 | 285 |
| **1994/95** | 356 | 720 | 1,080 | 125 | 369 |
| **2013/14** | 486 | 547 | 1,052 | 114 | 330 |
| **Change:** | | | | | |
| **85/86 – 94/95** | **+30%** | **+25%** | **+27%** | **+32%** | **+29%** |
| **85/86 - 13/14** | **+78%** | **-5%** | **+24%** | **+20%** | **+16%** |

**Figure 2.2a: Operated bus kilometres (million vehicle kilometres per year)**

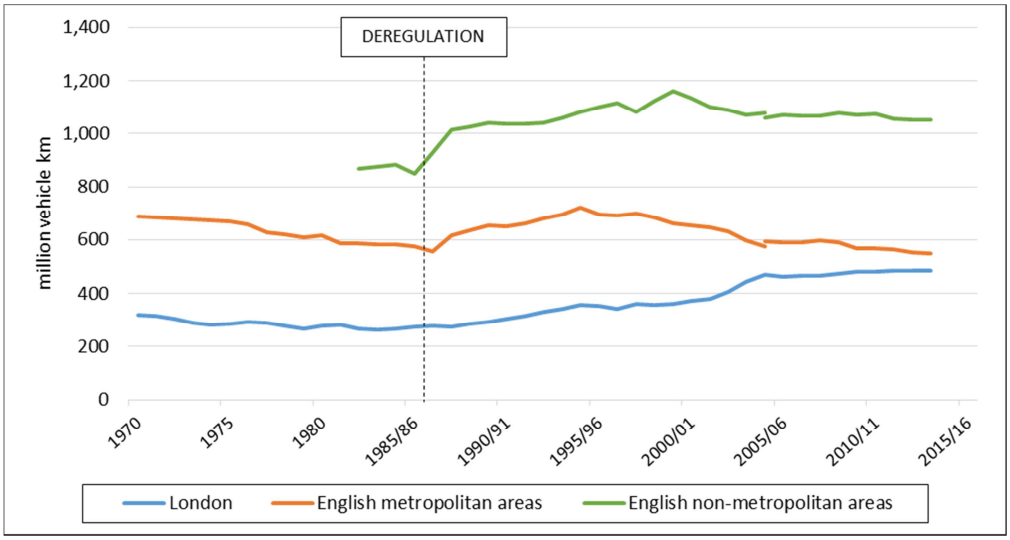
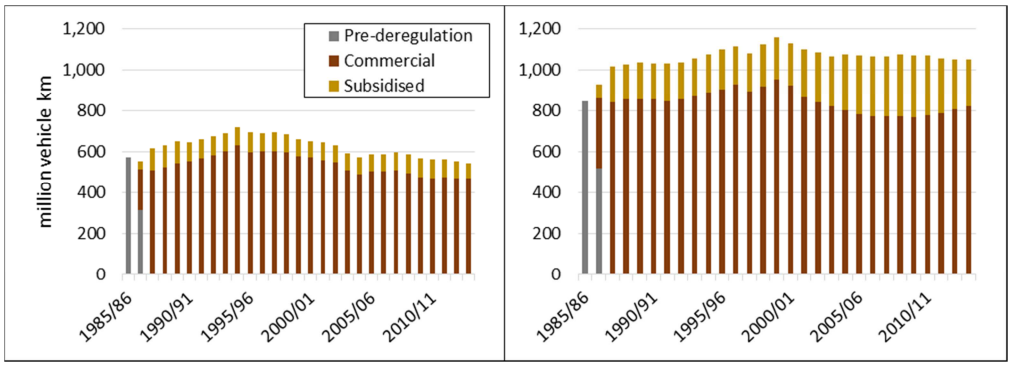



**Figure 2.2b: English metropolitan areas**

**Figure 2.2c: English non-metropolitan areas**




Source: Data from 1987/88 onwards taken from Department for Transport 2015 *Statistical Tables BUS0203b* and *BUS0205b*; previous data from Department of Transport 1994 *Busdata*. The break in the data series in the top chart (except for London) is due to changes in the estimation methodology in 2004/05.

By simple supply and demand theory an increase in bus kilometres *should* have stimulated more bus travel, albeit offset by an opposite effect from fares rises in the metropolitan areas (see Section 2.4). But it was quickly apparent that the additional bus services were not attracting more passengers because they were the wrong sort

of service increases. A bus service that runs twice as often is not twice as good when alternate services are run by rival operators that do not accept each other's tickets, and over-bussing where an existing service is already high frequency and good enough for most passengers will not increase patronage greatly. In the two years after deregulation, bus patronage would have been expected to fall by 10% in the metropolitan areas (taking account of changes in bus kilometres, substantial fares rises, and underlying factors including changes in car ownership). The actual fall was larger, at 16%[xvi]. In the non-metropolitan areas, bus patronage would have been expected to increase by 4%, but it in fact fell by 3%. The researchers who undertook this analysis attributed the worse-than-expected performance in the metropolitan areas to passenger uncertainty in the face of an unstable network and worsening information. In the non-metropolitan areas, the change in patronage was "more or less what would have been expected without taking into account the service level increase…the net effect is as if the extra mileage has generated very little new [passenger] traffic overall". One example of the failure of the extra mileage to serve any useful purpose was in Preston, where bus kilometres more than doubled (an increase of 124%) due to competition between the incumbent municipal operator and a new minibus operator 'Zippy', but passenger trips only rose by 5%.

From the mid-to-late 1990s onwards, the expansion of bus kilometres stopped in both the metropolitan and non-metropolitan areas, in part because head-to-head competition for the bus market declined, and possibly also because the earlier ineffective phase of expansion of services had been economically unsustainable for operators. By 2013/14, bus kilometres in the metropolitan areas had fallen back to slightly less than their low-point of 1986/87, while bus kilometres in the non-metropolitan areas had fallen slightly and then stabilised.

## 2.4 Bus fares

A number of the metropolitan areas had adopted low fares policies during the early 1980s, with considerable success in increasing patronage. Imposition of expenditure limits on Passenger Transport Authorities forced substantial fares increases immediately before deregulation, so that around April 1986, fares rose by 15% in Greater Manchester and Merseyside, 20% in Tyne and Wear, and 250% in South Yorkshire[xvii]. In the period immediately after deregulation, there were further fares rises: for example, on Merseyside, a switch from flat fares to graduated fares led to average increases of 55% on the commercial network.

These fares increases, coupled with the instability of the bus network in the period immediately after deregulation, resulted in an immediate and dramatic drop in patronage. On Merseyside, bus patronage fell by a third in the space of about two years. A study of the effects of deregulation on people living in low-income housing estates on Merseyside concluded that the substantial increase in commercial fares had been the single major cause of their reduced bus use, although unstable and unreliable services and lack of information had also played a part[xviii]. The study concluded that these factors had had a damaging effect in areas that were 'good bus territory', and that they had:

> *"…resulted in a changed attitude towards using buses by those on low incomes, leading to a reduction in bus use. Bus deregulation is seen by low income families as compounding other long-standing social pressures and there is now a general lack of confidence in bus services. The situation was contrasted with that before deregulation when services were regarded as stable, well known, reliable and cheaper."*

Once the culture and habit of bus use had been lost in these areas of 'good bus territory', it would prove hard to win back. Many years of value-for-money service

provision by the PTE's municipal bus companies had built up a valuable intangible asset in the form of a strong bus culture. Their successors, the deregulated commercial bus companies, were able to exploit this in the short-term by raising fares. But this tactic was unsustainable because it had the effect of degrading the bus culture. It turned out to be a novel form of asset-stripping.

In the years following deregulation, fares in the metropolitan areas continued to rise, and by 2014/15 they were 2.4 times their 1985/86 level, in real terms (Figure 2.3).

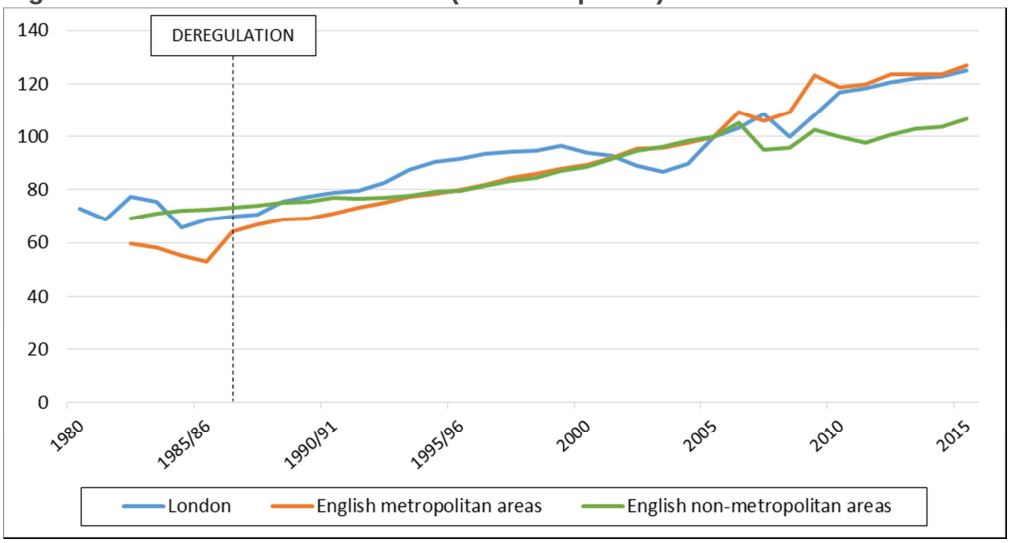
In the non-metropolitan areas, there was a more gradual increase in fares in the period shortly after deregulation, but the longer term pattern was again one of real terms increases, with fares reaching 1.5 times their 1985/86 level by 2014/15.

These trends are contrary to what was predicted by the government at the time of deregulation.

However, fares also increased in real terms in London, reaching 1.8 times their 1985/86 level by 2014/15. There was a period of lower fares after Ken Livingstone became Mayor in 2000, when a decision was made to introduce a flat £1 fare for all bus journeys, but the overall upward trend resumed from about 2005.

Thus the overall picture is that, across the country, travel by bus has become substantially more expensive over the last 30 years. Over the same period, the cost of motoring has fallen in real terms.

**Figure 2.3: Index of local bus fares (constant prices)**




Source: Department for Transport (DfT) 2015 *Statistical Tables BUS0405b* and *BUS0405b* (historic). Indexed to March 2005 = 100. Adjusted for inflation using Retail Prices Index. Data for years before 1995/96 compiled on a different basis to data for following years; an adjustment factor has been applied to the historic data to enable comparison with recent years. Trends in Wales and Scotland are similar to those in England.

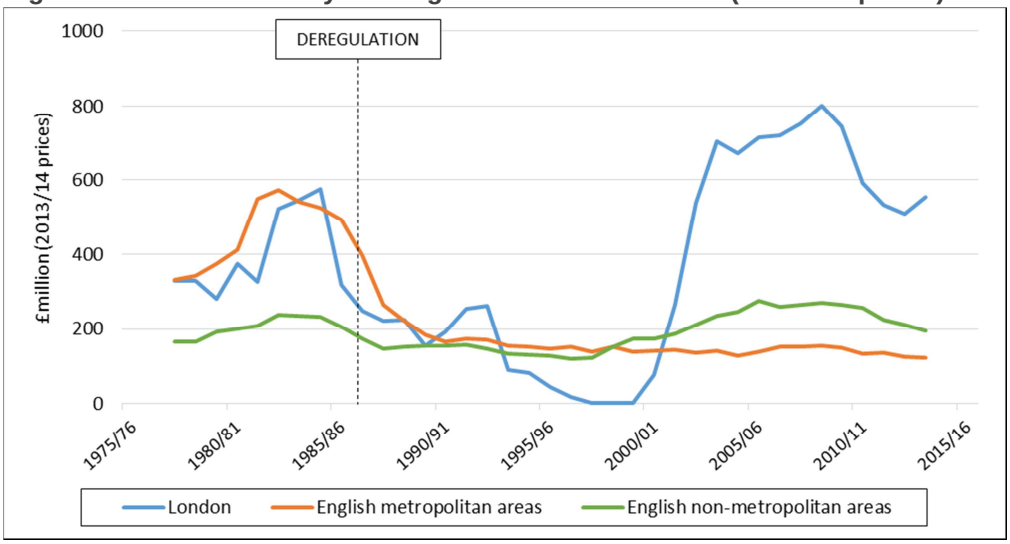
## 2.5 Public funding for buses

Since the 1970s, public funding for bus services has come from three sources:

- Local authorities' support for bus services (either running services themselves, or paying commercial bus operators to run tendered services[12]);
- National government (through the Bus Service Operators Grant, BSOG, previously known as the Fuel Duty Rebate, which is paid directly to bus operators);
- Concessionary travel schemes for older people, disabled people and some groups of young people[13].

Local authority support for bus services fell steeply in both the metropolitan areas and London in the period after abolition of the metropolitan county councils and Greater London Council and deregulation (Figure 2.4).

**Figure 2.4: Local authority funding for local bus services (constant prices)**




The increase in funding in London between 1990/91 and 1992/93 reflects changes at the time of preparation for sell-off of London Buses Ltd.
Source: Data from 1996/97 onwards taken from Department for Transport (DfT) 2015 *Statistical Table BUS0502a*; previous data from Department of Transport 1994 *Busdata*; DfT 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*; and DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition Supplement*. All figures in 2013/14 prices; adjusted for inflation using GDP deflator as at June 2014.
Wales and Scotland saw a drop in funding after deregulation, and a gradual increase from the mid-1990s to about 2005; figures not available after this date.

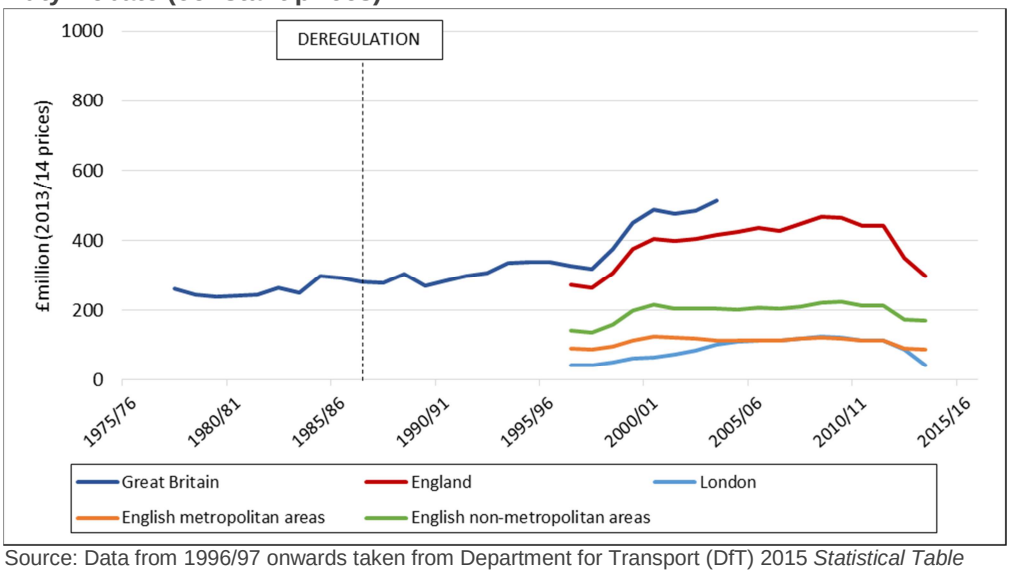
The decline in London was even more dramatic than in the metropolitan areas, so that by 1997 net public support for bus services in London was close to zero (£1 million). This trend was reversed in London after 2000/01 (following the creation of Transport for London), but funding continued to decline in the metropolitan areas. In the non-metropolitan areas, local authority funding declined somewhat following

[12] In the case of London this represents the difference between the fare revenue received by Transport for London and the cost of its purchase of franchised bus services, after allowing for reimbursement of BSOG to operators by national government and reimbursement of concessionary travel to TfL by London boroughs.
[13] Concessionary travel payments are made by local authorities, but are additional to local authority support for bus services.

deregulation, but then stabilised, and in fact rose slightly between 1997/98 and 2008/09 before then falling again.

Data on national government support through BSOG / Fuel Duty Rebate is only available in disaggregated form from 1996/97 onwards (and then only for England); before that year, it is reported for Great Britain as a whole. As shown in Figure 2.5, BSOG / FDR was fairly stable in real terms for the two decades from 1977/78 to 1997/98; then stable at a somewhat higher level until 2010/11. Since then, it has declined sharply, such that BSOG in 2013/14 stood at only two-thirds of its 2010/11 level in real terms.

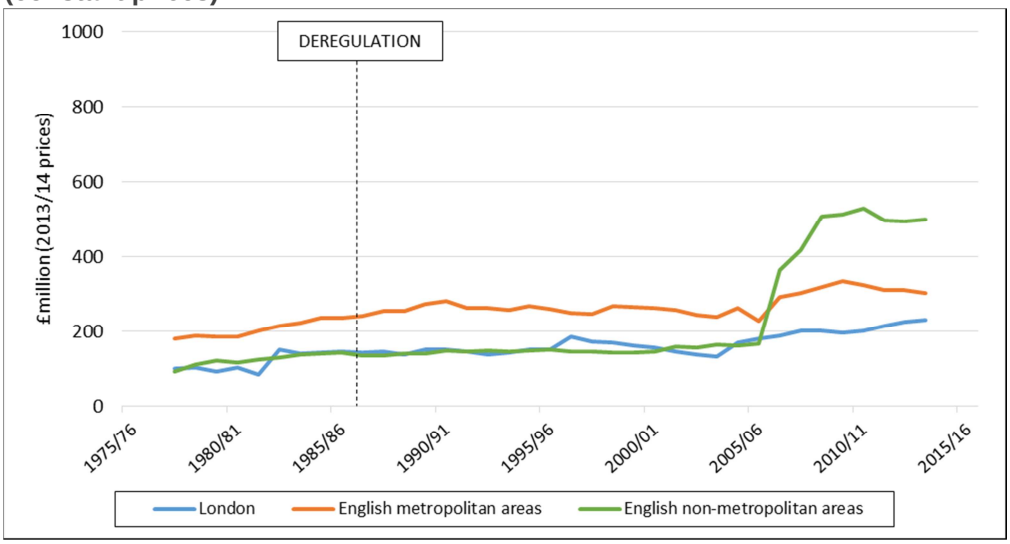
**Figure 2.5: National government funding for local bus services via BSOG / Fuel Duty Rebate (constant prices)**




Source: Data from 1996/97 onwards taken from Department for Transport (DfT) 2015 *Statistical Table BUS0502a*; previous data from Department of Transport 1994 *Busdata*; DfT 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*; and DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition Supplement*. All figures in 2013/14 prices; adjusted for inflation using GDP deflator as at June 2014. BSOG / Fuel Duty Rebate figures are not disaggregated by type of area before 1996/97.

Funding for concessionary travel was fairly stable or slightly rising in real terms in London and in the metropolitan areas from 1977/78 right through to 2013/14 (Figure 2.6). The non-metropolitan areas show a dramatic increase in funding of this type in 2006/07, following the introduction of free bus travel for older people in that year. However, public expenditure on concessionary travel in the non-metropolitan areas fairly quickly stabilised, and has since fallen back slightly.

**Figure 2.6: Funding for bus services via concessionary travel schemes (constant prices)**



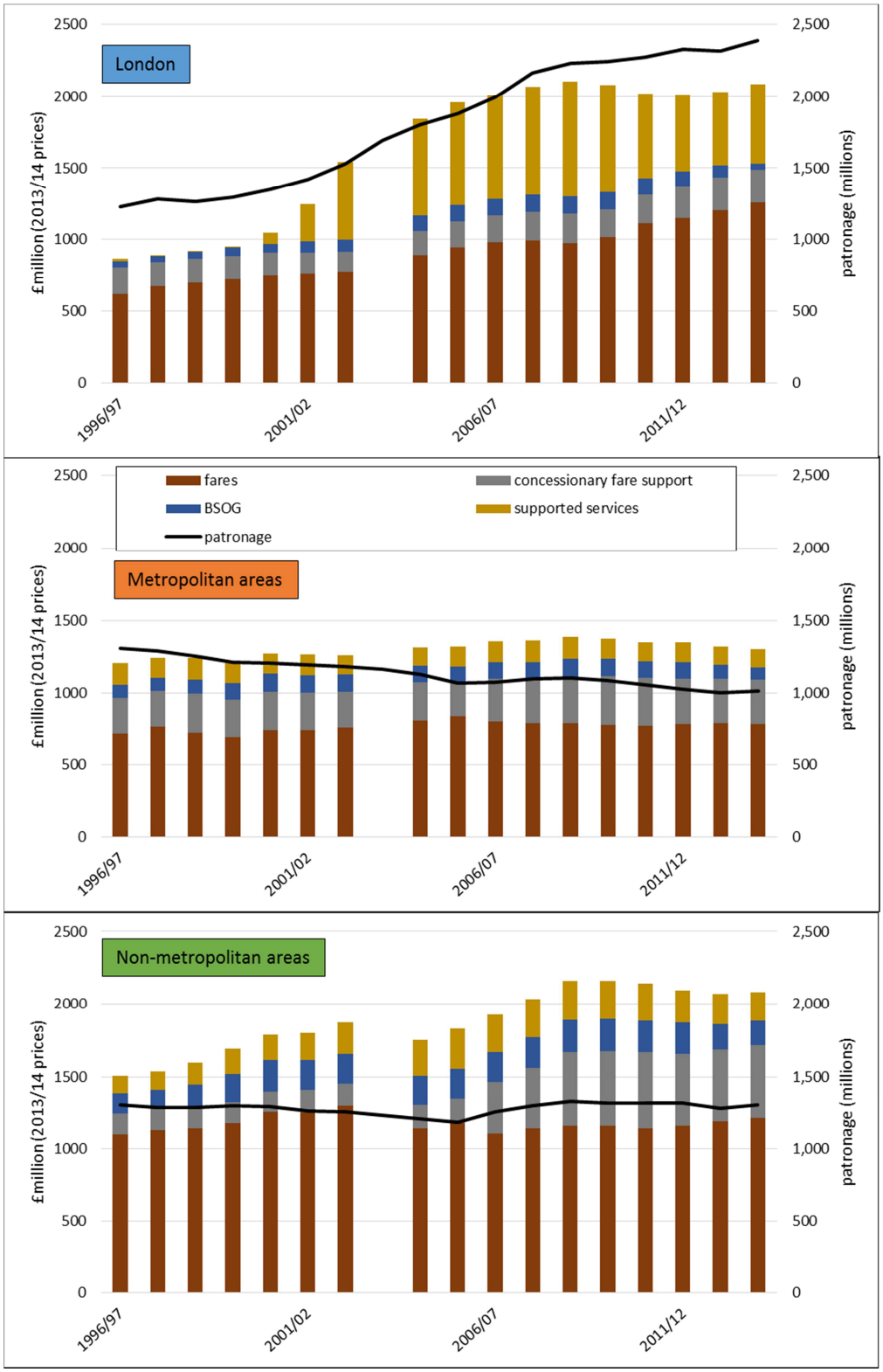

Source: Data from 1996/97 onwards taken from Department for Transport (DfT) 2015 *Statistical Table BUS0502a*; previous data from Department of Transport 1994 *Busdata*; DfT 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*; and DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition Supplement*. All figures in 2013/14 prices; adjusted for inflation using GDP deflator as at June 2014.
Trends in Wales and Scotland were similar to those in England until 2002/03, when funding via concessionary travel schemes increased in Wales, as a result of the introduction of free travel for older people in that year (three years earlier than in England).

Figure 2.7 puts all these elements of public funding together, and shows how they compare to fares income and total operator turnover. From these charts, it is apparent that a substantial proportion of bus operator turnover comes from public funds. Over the last two decades it has formed about 40% of turnover in metropolitan areas, nearly 30-50% of turnover in non-metropolitan areas; and approximately 25-50% of turnover in London.

In recent years, the level of public funding (and of operator turnover) in London has been similar to that in non-metropolitan areas. But whereas in London the increased public funding under the control of Transport for London was used strategically and succeeded in stimulating a substantial growth in patronage[14], in non-metropolitan areas, increased public funding in the form of concessionary fares payments was outside local authority control, and patronage remained flat. In the metropolitan areas, public funding, income from fares, and hence operator turnover, have remained fairly level for the last two decades, while patronage has fallen.

[14] Although other factors play in on patronage changes in London the graph appears, *prima facie*, to show a classic 'pump-priming' relationship between Transport for London's initial funding and patronage. Initial increase in financial support was accompanied by rapidly rising patronage but when support was trimmed back patronage was sustained at the higher level.

**Figure 2.7: Operator turnover, split by fares income and type of public funding; and patronage**




Source: DfT 2015 *Statistical Tables BUS0501a* and *BUS0502a*; Department for Transport 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*

The key points to draw with regard to public funding are as follows:

- Public funding of various types forms a significant proportion of the overall turnover of bus operators, in all areas.
- London and the metropolitan areas were treated rather similarly in terms of public funding in the period between the mid-1980s and 2000, but showed differing outcomes in terms of patronage: stable in London but falling in the metropolitan areas. After 2000, London had increased public funding and was able to use this effectively to stimulate increased bus use.
- Non-metropolitan areas experienced a substantial rise in public funding in the form of payments to operators for travel by concessionary pass holders in 2006/07, but this increase in public funding (and operator turnover) did not result in a significant increase in overall patronage.

## 2.6 Bus operators' costs: efficiency and effectiveness

A key measure of the *efficiency* of bus operations is the unit operating cost measured per 'bus-kilometre' (the cost of running a bus one kilometre). In the decade after deregulation, there was an improvement in efficiency according to this measure (Figure 2.8). This occurred in all areas including London (where, although deregulation had not happened, services began to be competitively tendered).

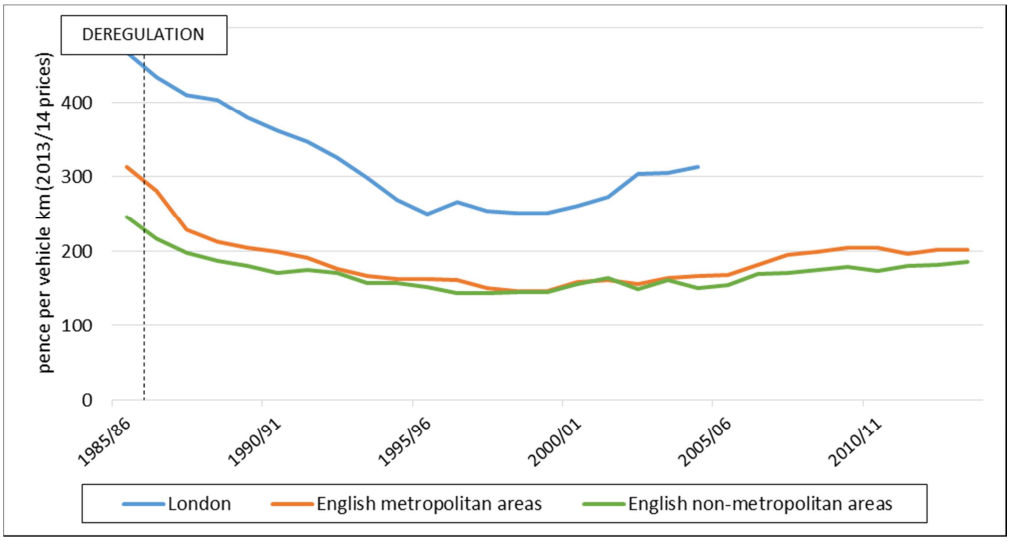
Academic research concluded that the fall in unit operating costs was largely achieved through reductions in the number of maintenance and administrative staff, reductions in wages (shown in Section 2.8), and worsening of working conditions such as annual holiday entitlements, sick pay schemes, pension rights, and canteen facilities[xix]. There was also some cost reduction as a result of increased use of minibuses – although some of the savings arising from greater use of minibuses were because their drivers were paid at lower rates than the drivers of full-size buses[xx].

During the period of declining costs, the rate of fall in unit operating costs was similar in all areas (-47% in London; -54% in metropolitan areas; -41% in non-metropolitan areas; -51% in Scotland; -45% in Wales, all between 1985/86 and 1999/00).

This period of falling costs came to an end in the mid-1990s, and unit costs have been rising since 1999. One expert interviewee told us that this was attributable to an increased emphasis on service quality, and because worsening congestion requires operators to put more drivers and vehicles onto routes in order to maintain service frequency and reliability. It also reflects the fact that, having held wages down relative to other occupations for 15 years, operators began to pay more in order to be attractive to prospective employees relative to other manual occupations.

Figure 2.8 also shows that unit operating costs in London are substantially greater than operating costs elsewhere, probably due to a combination of London congestion, London pay levels, and specification of better quality vehicles.

**Figure 2.8: Efficiency: Operating costs per bus-kilometre (constant prices)**



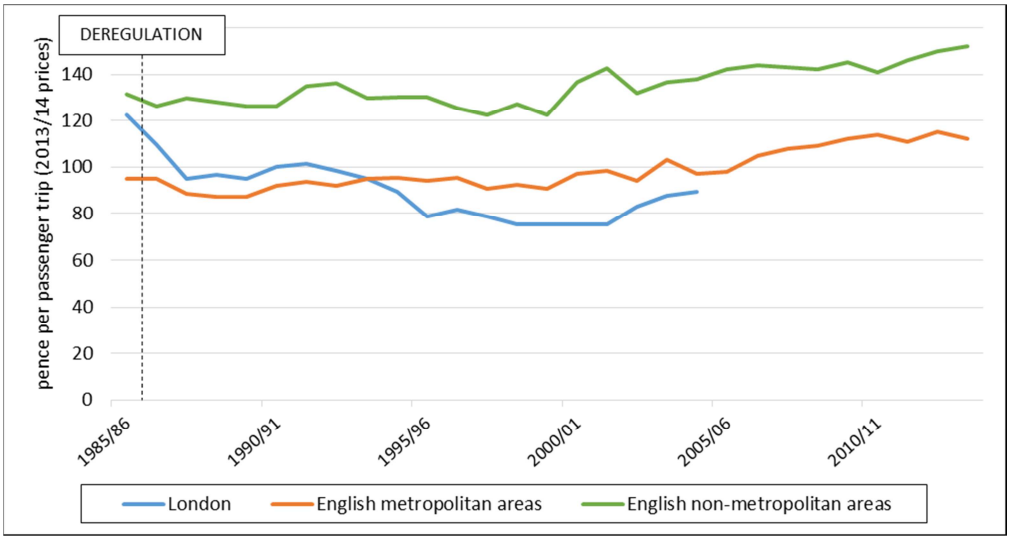

Source: Data from 2004/05 onwards taken from Department for Transport (DfT) 2015 *Statistical Table* BUS0408b; previous data from DfT 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*; and DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition Supplement*. Data for years before 2004/05 compiled on a different basis to data for following years; an adjustment factor has been applied to the historic data to enable comparison with recent years. Recent DfT data does not include London; historic data for London has therefore been adjusted using the same adjustment factor as applied to metropolitan areas. All figures in 2013/14 prices; adjusted for inflation using GDP deflator as at June 2014.
Trends in Wales and Scotland are similar to those in English metropolitan and non-metropolitan areas.

Another important unit cost is the cost per passenger trip. This measure is a better indication of the overall *effectiveness* of the bus system (Figure 2.9). Outside London, costs per passenger trip remained broadly unchanged in the period after deregulation, despite the fall in operating costs for each bus kilometre, because the number of passengers fell at a similar rate. Since the mid-1990s, the effectiveness of the bus system outside London has worsened, with costs per passenger trip increasing by a fifth in England and Scotland, and by nearly half in Wales (+19% in English metropolitan areas; +17% in English non-metropolitan areas; +23% in Scotland; +44% in Wales, all between 1995/96 and 2013/14).

In London, however, where the bus system was marketised but still regulated, passenger numbers remained stable, so costs per passenger trip fell at a similar rate to the fall in operating costs per bus kilometre. Figures for operating costs per trip are not available for London after 2004/05, but if the sum of fares income and public funding is used as a proxy for operating costs[15], it appears that costs per passenger trip in London have been falling since 2005/06. In other words, in London there has been an increase in both efficiency and effectiveness over the last 30 years, whereas outside London the increase in efficiency was not accompanied by a corresponding increase in effectiveness[xxi].

[15] This is a reasonable assumption so long as the level of dividend payment and retained profit by commercial operators has remained broadly constant over the period in question.

**Figure 2.9: Effectiveness: Operating costs per passenger trip (constant prices)**




Source: Data from 2004/05 onwards taken from Department for Transport (DfT) 2015 *Statistical Table* BUS0407b; previous data from DfT 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*; and DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition Supplement*. Data for years before 2004/05 compiled on a different basis to data for following years; an adjustment factor has been applied to the historic data to enable comparison with recent years. Recent DfT data does not include London; historic data for London has therefore been adjusted using the same adjustment factor as applied to metropolitan areas. All figures in 2013/14 prices; adjusted for inflation using GDP deflator as at June 2014.
Trend in Scotland is between that for English metropolitan and non-metropolitan areas; trend in Wales is similar to English non-metropolitan areas until 2005/06, and thereafter somewhat higher (i.e. worse).

## 2.7 Age and quality of buses

The age of the bus fleet increased in the decade after deregulation. For Great Britain as a whole (including London), the proportion of very old buses (12 years or more) increased from just 15% of the entire bus fleet before deregulation in 1980, to approximately 40% of the fleet in 1996 (Figure 2.10). The average age of buses hence rose to 9.9 years in the mid-1990s, before starting to improve (Figure 2.11).

The trend in the decade after deregulation was explained by one of our expert interviewees as a consequence of fierce competition cutting margins to the point where bus companies were reluctant to shoulder the financial risks of funding fleet replacement. During this period, budget operators could challenge incumbent operators on attractively busy routes and get a good proportion of the trade even by running ancient buses[16]. Even in areas where head-to-head competition was not taking place, the threat of incursion by rival operators meant that incumbent operators were more risk-averse and more reluctant to invest.

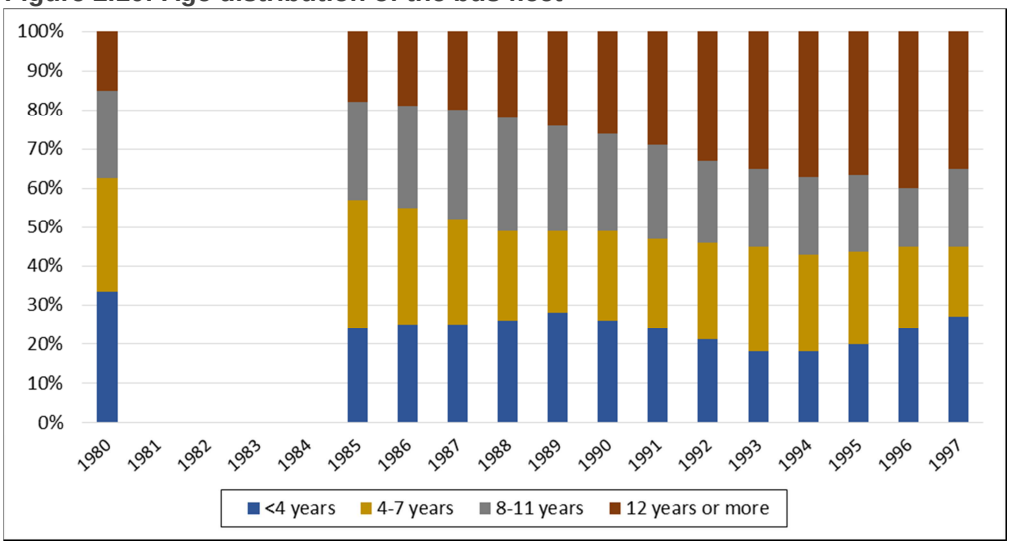
Competition on the basis of fleet age was clearly unsustainable in the longer term, since bus fleets could not go on getting older *ad infinitum*. Regulation at the UK and EU level regarding disabled access and vehicle emissions have to some degree removed scope for use of very old buses, and bus operators now feel more security to invest where initial on-road competition has been seen off and local dominance strongly established by a particular operator. Nevertheless, there persists an

[16] In Reading, for example, a former employee set up a rival company running old Routemasters, and successfully cherry-picked some prime routes for several years, with severe consequences for the profitability of the city's main operator, Reading Buses.

underlying disincentive to invest where competitors may come in with older buses to exploit patronage built up on the basis of an incumbent's investment in better vehicles.

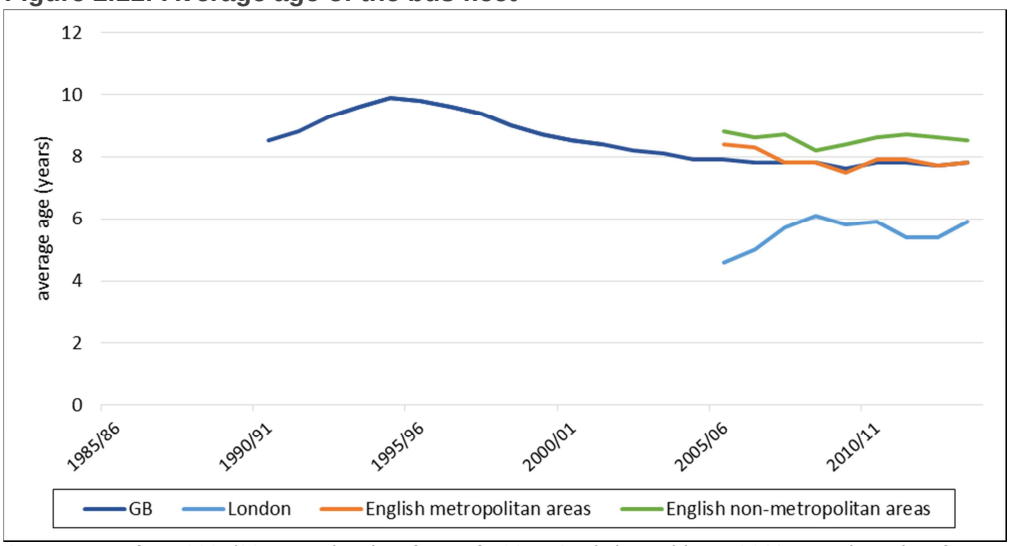
In London, the average age of the bus fleet is substantially lower than in the rest of the country (about 5-6 years, compared to just under 8 years in the metropolitan areas and 8-9 years in the non-metropolitan areas). This is a consequence of Transport for London being able to specify the quality of the buses used to run services in the capital.

**Figure 2.10: Age distribution of the bus fleet**




Source: data from 1980 to 1992 taken from DoT 1994 *Busdata*; data from 1993 to 1997 estimated from Chart 2.5 in DETR 1999 *Focus on Public Transport: Great Britain: 1999 Edition*.

**Figure 2.11: Average age of the bus fleet**

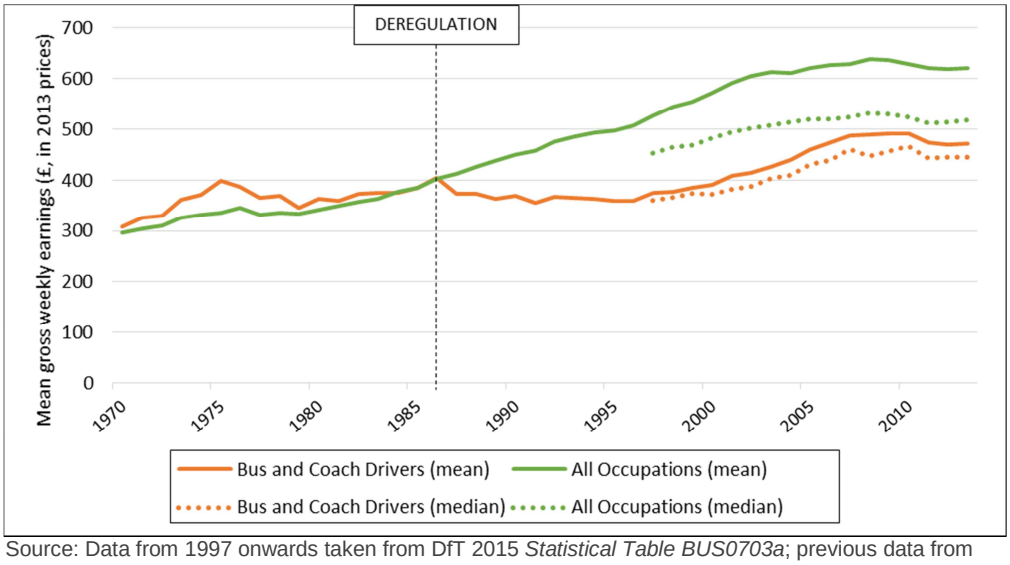



Source: Data from 2005/06 onwards taken from DfT 2015 *Statistics Table BUS0605*; previous data from DfT 2003 *Transport Statistics Bulletin: A Bulletin of Public Transport Statistics: Great Britain: 2003 Edition*; and DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition*

## 2.8 Pay and working conditions of bus company employees

In the period before deregulation, average bus drivers' wages were similar to average wages for all occupations (Figure 2.12). After deregulation, this decisively changed. While average wages for all occupations rose by 25% in real terms in the decade following deregulation, bus drivers' wages fell by 11%. From the mid-1990s onwards, bus drivers' wages began to rise in real terms, but at a similar rate to the real-terms rise for all occupations, so that the gap remained. This means that gross earnings for a full-time bus driver averaged £472 per week by 2013, whereas they would have been £620 per week if bus drivers' wages had kept up with wage growth.

**Figure 2.12: Average weekly wages for bus drivers (constant prices)**




Source: Data from 1997 onwards taken from DfT 2015 *Statistical Table BUS0703a*; previous data from DfT 2005 *Public Transport Statistics Bulletin GB: 2005 Edition*.

The private operators that came to dominate the market after deregulation largely removed overtime payments, insisting on flexible working practices and drawing on a pool of part-time staff at short notice. Drivers were asked to assume extra duties, whilst being offered poorer pension arrangements, less holiday, and fewer facilities such as workplace canteens[xxii].

## 2.9 Number of bus companies

In the period shortly after deregulation, a large number of companies were providing bus services across the UK. This was a consequence of the way in which the publicly-owned National Bus Company, Scottish Bus Group and municipal operators had been privatised. For example, when the 52 subsidiary operating companies of the National Bus Company were privatised between 1986 and 1988, no single purchaser was allowed to buy more than three NBC subsidiaries, and geographically adjacent subsidiaries were sold to different buyers in order to prevent large areas coming under the same ownership. The majority of the sales (36 of the 52) were to employee or management teams.

A period of buy-outs in the decade after deregulation radically changed this picture. In its 2011 report, the Competition Commission identified more than 300 mergers and acquisitions of local bus operators in the UK (excluding Northern Ireland and London) between 1988 and 2009[xxiii]. Stagecoach made 27 major acquisitions (of operators with fleet sizes varying from 110 to over 1000 buses); First Group and its predecessor companies made 20 major acquisitions (varying from 150 to 1,100

buses); and Arriva and its predecessor British Bus Group made 17 major acquisitions (varying from 120 to 940 buses).

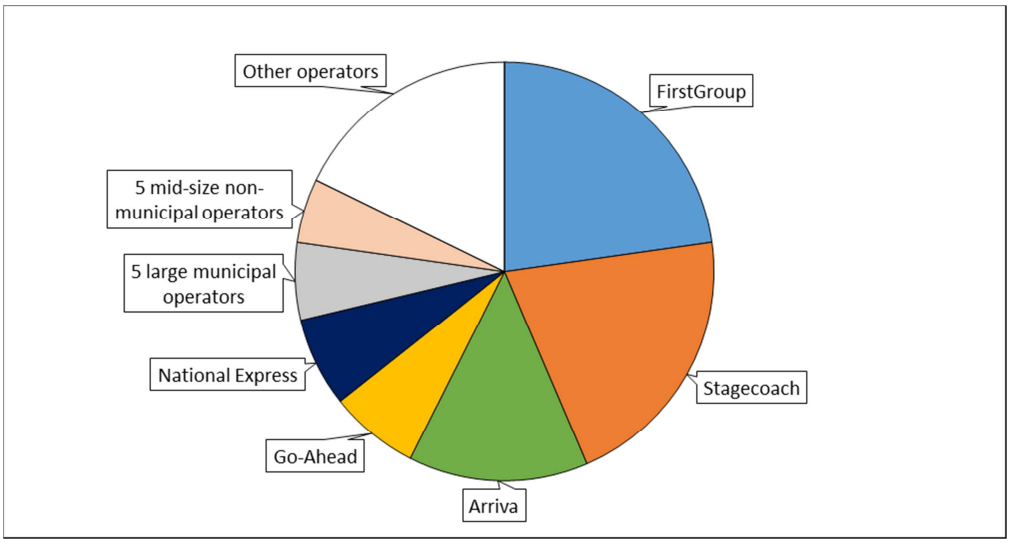
By 2006, the geographical areas that had been covered by the 52 former NBC companies were largely in the hands of Arriva (with 17 areas), Stagecoach (also with 17 areas), and First (13 areas). Similarly, all the former PTE bus companies were sold to Arriva, Stagecoach or First, with the exception of West Midlands Travel which was sold to National Express.

At local level, the Competition Commission concluded that in most urban areas, the bus market was dominated by either one or two big players, with a small proportion of services provided by other operators. Across 238 urban areas, it found that there were 92 areas where one operator was dominant, running more than three-quarters of all bus services; and an additional 87 urban areas where two operators together ran more than three-quarters of all services. It was rare for the largest operators to compete head-to-head in an urban area.

Thus the initial post-deregulation situation, with many small-to-medium sized operators, had reformed into an oligopoly at the national level, with most urban areas having either a near-monopoly operator or two dominant operators.

Measured by turnover, the five largest bus groups now hold about 70% of the market. In 2008/09, FirstGroup accounted for 23% of operating revenue across Great Britain; Stagecoach for 21%; Arriva for 14% and Go-Ahead and National Express each for 7% (Figure 2.13).

**Figure 2.13: Share of operating revenue from local bus services, 2008/09, Great Britain**




Source: Competition Commission 2011 *Local bus services market investigation*.

# 3. Bus operator profit levels

## 3.1 Introduction

The previous chapter showed that in the last twenty years, the bus industry has progressively moved from having many small-to-medium sized operators to being dominated by five big players. The existence of an oligopoly at national level, and duopoly or monopoly in most local areas, raises the question of whether the bus service 'market' is functioning competitively – and if not, whether different regulatory models could reduce costs. This is of particular concern because of the substantial sums of public money that are used to support bus services, and because of the current downward pressure on public funding.

The following sections look at the amount of profit bus companies make; how much of this is paid out to shareholders and how much is reinvested for improvements such as better vehicles; and how the picture varies between different areas and different bus companies. The analysis is based on financial results[17] for all bus companies in Britain with more than 100 employees, which together account for more than 90%[18] of the turnover of bus operators in Britain.

## 3.2 Profit levels nationally and by type of area

Across Britain as a whole, bus companies made an average operating profit[19] of £297 million each year during the ten year period to 2013 (in 2013/14 prices). This represented 6.1% of their average annual turnover of £4.9 billion.

Most of this profit, £277 million per year (5.7% of turnover), was paid out as dividends to shareholders, amounting to £2.8 billion over the whole ten year period.

Bus company profitability varied significantly between different types of area (Table 3.1). Over a ten year period the metropolitan areas outside London yielded the highest average profits for bus companies (8.4%). Profit levels in London averaged somewhat under half this level (3.8%), with other areas lying in between (6.3%).

Dividend payments to shareholders consumed most of the profit. Considered as a proportion of post-tax profit, average dividends ranged from 80% to 94%[20]. Levels of retained profit are therefore low, ranging from 0.2% of turnover in London to 1.3% in metropolitan areas and 1.5% in other areas.

[17] Drawn from the 'FAME' database of corporate accounts. Data extract 2014, covering ten previous reporting years to 2013.
[18] In the last accounting year considered these companies turned over more than £5.3 billion.
[19] Here and elsewhere, unless otherwise stated, the term profit refers to operating profit calculated as EBIT, earnings before interest and tax, and percentage figures for operating profits and dividends are calculated as a proportion of turnover.
[20] The tabulated figures would lead to the expectation that proportions were even higher, but an unusual feature of many bus company accounts is that pre-tax and post-tax profits exceed operating profits (EBIT). This appears to indicate significant income from interest on loans, presumably made to other parts of corporate groups using profits from earlier years. This anomaly is also the reason that levels of retained profit appear higher than would be expected.

**Table 3.1: Bus company profits by type of area**

| | Operating profit (%) | Dividends (%) | Operating profit (£m) | Dividends (£m) |
|---|---|---|---|---|
| **London** | 3.8% | 3.9% | 59 | 60 |
| **English metropolitan areas** | 8.4% | 7.7% | 110 | 100 |
| **All other areas** | 6.3% | 5.7% | 128 | 117 |
| **Average / Total for GB** | **6.1%** | **5.7%** | **297** | **277** |

All figures represent annual averages over a ten year period; percentages relate to total turnover. All other areas = non-metropolitan areas of England, plus Scotland and Wales. Figures are in 2013/14 prices.

## 3.3 Profit variation between companies

Behind the average profit figures there is wide variation in profit levels between different bus companies. Consideration of the top quintile of highest profit companies (by profit as a percentage of turnover) confirms that operators in large towns and cities are able to achieve the highest profit margins[21]. Midlands operator Trent Barton[22], operating around Nottingham and Derby, tops the list with an 18.0% ten-year average operating profit. Stagecoach's Tyne and Wear operation[23] is next at 16.6%, a lower percentage but relating to a turnover four times that of Trent Barton and therefore representing a much larger profit in absolute terms. No London bus operators make it into the top quintile measured by percentage profit. Bus companies operating entirely in rural areas without large towns or cities are also absent, although two operators with significant operations across rural areas from the nearest cities do achieve the top quintile[24].

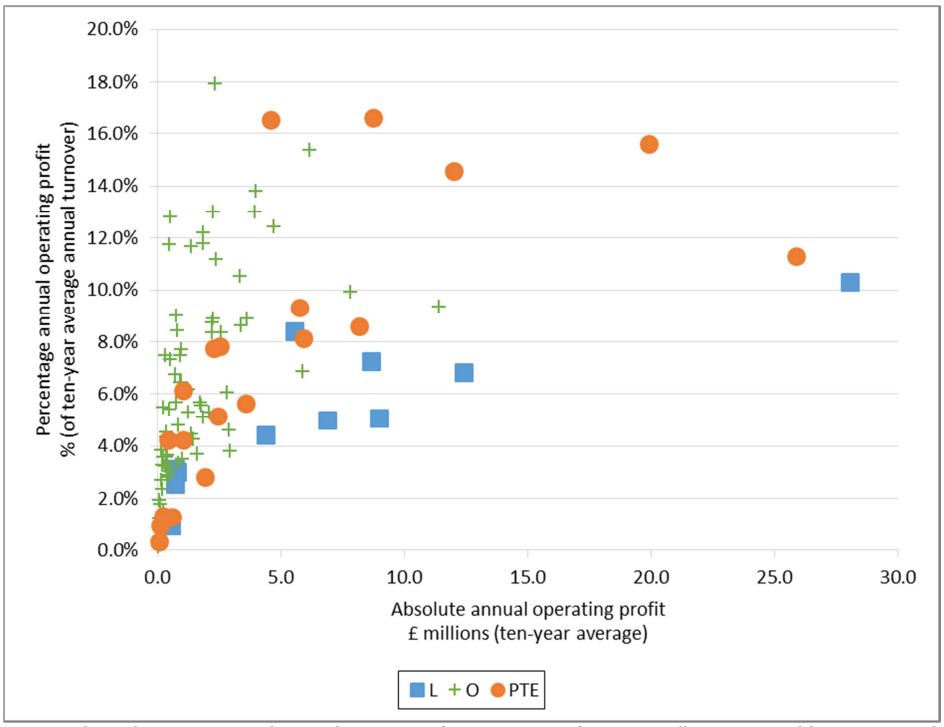
The picture looks significantly different if the top quintile is selected on the basis of the absolute amount of profit, rather than profit as a percentage of turnover. This viewpoint reveals that London provides operators with some of the highest absolute amounts of profit, even though it does not yield the highest percentage profits. On this basis, 50% of London operators fall into the top quintile, due to the large size of their operations. Operators in the metropolitan areas are also over-represented, with 35% falling into the top quintile.

Percentage profits and absolute profits are compared graphically in Figure 3.1, revealing the following:

[21] Disregarding specialist leisure operators and express long distance coaching companies which are strongly represented in the top profit quintile (6 in total). These are not relevant to this discussion of local bus services, although some of these companies are subsidiaries of major bus groups that also operate local bus services.
[22] Barton Buses Ltd.
[23] Busways Travel Services Ltd.
[24] Konectbus, a Go-Ahead subsidiary in Norfolk, and Yorkshire Coastliner Ltd, a Transdev Blazefield subsidiary operating mainly in North Yorkshire.

- Companies outside London and the metropolitan areas show a wide range of profits in percentage terms, including some of the highest. These are not, however, the highest profit companies in absolute terms[25].
- Companies in the metropolitan areas also show a wide range of profits in percentage terms. A higher proportion than in the non-metropolitan areas show large profits in absolute terms, as would be expected from the larger operations in these areas. There is, however, a notable proportion that show both high percentage profits and large absolute profits[26].
- Companies in London do not range up to such high percentage profits as companies elsewhere. Percentage profits are in single digits in all but one case. However, absolute amounts of profit are large for some firms, reflecting the scale of operations in the capital[27].

**Figure 3.1: Bus company profits by percentage versus absolute value**




Notes: 1) L = bus operators in London, PTE = bus operators in metropolitan areas with PTEs, O = bus operators in other areas; 2) Tourism and express coaching firms with exceptionally high profits are excluded to avoid distraction from the trends for local bus operators; 3) Loss-making companies (14) have also been excluded to enable greater clarity.

[25] Nevertheless, a few companies in this category do achieve higher absolute amounts of profit, above £5 million per year, and some of these are also achieving profits approaching or significantly exceeding 10%.
[26] For example, First West Yorkshire is notably high in both categories, with ten-year average annual profits of £19.9 million whilst achieving a 15.6% percentage profit.
[27] The conspicuous outlying blue point on the graph is a company in the Go-Ahead group, London General Transport, which averaged £28 million profit, or 10.3% of turnover.

## 3.4 Are these profit levels reasonable?

Various parties have presented reasoned arguments about whether the profit levels described above are reasonable or excessive, drawing on comparisons inside and outside the bus industry. Three lines of comparison are used, which we consider in turn:

- How do bus company profits compare with profits made by other businesses with similar risk profiles?
- How do profits, and in particular dividends paid out, compare with the amount of public money required to sustain and improve bus services?
- How do profits and dividends compare with those that would result under other regulatory structures?

**Comparison with profits made by businesses with similar risk profiles**

The Competition Commission's investigation into the local bus services market in 2011 analysed whether bus companies get a higher return on investment than would be expected in an efficient market. The rationale behind its methodology[xxiv] is that a competitive market should drive profit levels down to a comparable level to the return achievable from deploying the capital bound up in the firm in another way at an equivalent level of risk[28]. Taking this purely economic perspective, the Competition Commission concluded that the deregulated market for bus services was working inefficiently:

> *"Operators representing a substantial part of the market have earned profits that were persistently above the cost of capital on a national basis, indicating that competition may not have been wholly effective...The overall ROCE [return on capital employed] for the five-year period of 13.5 per cent was 3.8 percentage points above the midpoint of our cost of capital range."*[xxv]

The analysis estimated that profit 'in excess of the cost of capital' amounted to an average of £72 million[xxvi] per year.

The Competition Commission report also pointed out that the analysis of excess profitability does not capture all aspects of 'detriment' to passengers. Competition failure also results in some people not using buses and existing bus users not receiving benefits of better services, effects which the Commission noted were 'potentially large'. Taking these into account, and inefficiencies in the tendered market for bus services, it estimated the total detriment to consumers and taxpayers to be in the range £115 million to £305 million per year[xxvii].

More recently, analysis by John Preston for the Public Policy Institute for Wales[xxviii] reached a similar conclusion, and suggested what benefits there might be if excess profits were eliminated:

> *"It seems likely that operators in Wales are earning monopoly rents and were the Welsh Government to eliminate supernormal profits and pursue an objective of maximising welfare there would be clear benefits – mainly in the form of fare reductions but also some service increases."*

[28] This is sometimes referred to as the 'opportunity cost' of the capital employed.

**Comparison of profits and dividends with public money required to sustain bus services**

Viewed at the national level, the £277 million extracted from the bus industry each year as dividends for its shareholders compares with about £2.8 billion of public money that goes into the bus industry[29]. Dividend leakage from a public service at 10% of public money might once have been viewed as insignificant, but this proportion carries greater weight in an era when it is similar to the level of austerity savings that central and local government are presently being asked to find. Local authority funding for bus services is estimated to have been cut by 15% since 2010[xxix] and Bus Service Operators Grant (BSOG) was cut by 20% in 2012/13.

This type of comparison has gained prominence at local level, in particular in Tyne and Wear where it was a major consideration in the decision by the Passenger Transport Executive Nexus to seek a Quality Contract Scheme. Nexus estimated[xxx] that in the year 2014/15 it would spend £56.2 million on Tyne and Wear bus services (out of a total public spend on bus services of £66.3 million[30]). Following reductions in central government funding, Nexus has drawn on its reserves to maintain bus services, but it will have exhausted its reserves by 2016/17, after which it faces an unfunded shortfall of £5 million per year. These figures compare against average bus company profits in the Tyne and Wear area of about £22 million per year[31]. Nexus considered[xxxi] that franchising under a Quality Contract Scheme would reduce bus company operating profits from 14% at present, to around 8%[32], which would translate into an annual saving of £9 million[33]. This calculation may underestimate the available savings, since the five-year average operating profit was 19.5% for the area's major operator, Stagecoach subsidiary Busways[34].

Our expert interviewee from Tyne and Wear explained that:

> *"A major problem for Nexus is value for money. We have a funding issue. Loads of public money goes into the system. A lot of it goes out in profits. We have to ask whether we can get a better deal for our public funding, especially at a time when public funding is drying up."*
>
> [Expert interviewee]

The data presented earlier in this chapter showed wide variation in profit levels between bus companies, from which it seems likely that the local significance of bus company profits may also vary. The *prima facie* evidence is that at least some of the other PTE areas are in a similar situation to Nexus, and some non-metropolitan areas are probably also experiencing a high outflow of dividends relative to their levels of public expenditure on buses.

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[29] Figure is based on total public funding for buses (support for tendered services, BSOG and concessionary fares) in England and Scotland, and estimated figures for Wales, averaged over last ten years, in 2013/14 prices.
[30] This figure covers concessionary fare reimbursement, BSOG and funding for tendered (non-commercial) services.
[31] Calculated from the bus operator income estimate and average four-year operating (EBIT) profit of 14% in Nexus 2014 *Bus strategy delivery project: report to the North East Combined Authority* para 2.17 p 11.
[32] Nexus 2014 *ibid* states that an 8% figure is partly based on bus contracts in London, but our analysis earlier in this chapter would indicate that is probably at the high end of profitability amongst London operators.
[33] £9 million per year is our calculation on the basis of the previously cited Nexus figures.
[34] Based on FAME data extracted 2014 covering five previous financial years. Busways operating profits exceeded 22% in three of these years. The calculation also makes no allowance for the misalignment between bus company boundaries and the Tyne and Wear area that the Nexus Quality Contract Scheme would cover: profit figures in corporate accounts may have been lowered by inclusion of operations outside the main urban area.

Although the franchised London bus market has generally lower profit margins, there is a question why its biggest contractor, Go-Ahead's subsidiary London General Transport Services Limited, achieved operating profits that averaged double digits (10.3%) over a ten-year period, in a contracting structure where Transport for London bears all the revenue risk. In absolute terms this profit represents an average of £28 million per year, which in comparison with total expenditure on bus services in London may appear small. However, given the controversy around Transport for London's intended purchase of 200 more New Routemaster buses[xxxii], an alternative comparison might be that this profit leakage is equivalent to the purchase cost of 80 New Routemasters per year.

**Comparison with profits and dividends under other regulatory models**

Since deregulation, most bus services have come to be delivered by companies with a conventional corporate model, funded by investment from shareholders who are rewarded with dividends from the companies' profits. This is not the standard model for bus provision in all countries, or even in all parts of the UK. Many European cities own bus companies that run all the bus services in those cities; twelve municipalities in Britain (and the Government of Northern Ireland) own bus companies which run most bus services in their areas; and social enterprises with organisational structures that do not require payment of dividends provide bus services in some areas. We return to the pros and cons of these various organisational options for provision of bus services later in this report (Chapter 5). In this section we consider only financial aspects, in particular the degree to which these kinds of organisations appear capable of providing significant 'added value', by turning money that would otherwise be paid out as dividends into investment in better bus services.

One British example of a not-for-dividend municipal operation is Reading Buses, which is wholly owned by Reading Council. The council does not demand a dividend payment from its operator, instead expecting that the operator delivers improvements to the bus network in the town. It is estimated that this benefit is worth about 12% of bus company turnover, which equates to £3 million per year on Reading Buses turnover of £25 million[35]. A key advantage of the arrangement is that profit from prime routes stays in the local area and can be reinvested to support marginal routes to the benefit of the whole network. The amount concerned is enough to buy a lot of additional bus service and as a result Reading is far ahead of similar size places in its network coverage. Our expert interviewee from Reading Council commented that:

> *"Commercial bus companies have to take a view on what percentage profit they need to make in order to run a bus service. This can have unfortunate consequences on the provision of evening and Sunday services. In Reading it has been found that such services also attract people at other times as they see that a 'complete' service is being offered, resulting in a commercial benefit to the bus company. Four routes now operate 24/7 meaning that passengers have no need to worry about ever missing the last bus. Reading Borough Council and Reading Buses have come to a shared view that most bus routes in the town should be in operation from around 6am to 11pm each day (later starts on Sundays) to give a comprehensive service to residents."*
>
> [Expert interviewee]

[35] 10-year average from FAME data extract 2014.

Reading Buses themselves also see the benefit but express it in slightly different terms:

> *"Reading Council get a quality of service and density of network that they would not otherwise get. Their ownership doesn't change the rules – if they were to ask us to act in the same way as one of the big groups operating here and achieve 12-15% return we would pay them that sum of money [about £3 million]. But they would not have the same network. They would then have exactly the same issues as other areas where they would have to put their hands in their pockets to support some routes.*
>
> [Expert interviewee]

The absence of dividend leakage also helps justify a high level of expenditure on bus priority measures since Reading Buses ploughs the benefits back into the local area:

> *"Investment in facilities for buses benefits all bus companies that operate in Reading and encourages passenger growth. Increased passengers using Reading Buses means that the company can invest further in improved services and in better buses which has an additional benefit of keeping the value of the investment in Reading."*
>
> [Expert interviewee]

In Europe, there are a number of examples from the transport, water and energy sectors of local authorities deciding to re-municipalise services which had previously been privatised. This trend is in part driven by the potential for cost savings from removing dividend payments to shareholders. A trend to municipalise public transport provision is particularly evident in France. Box 3.1 describes savings French local authorities have achieved by municipalisation.

**Box 3.1: Savings from municipalisation in France**

Over the last decade, there has been a significant shift in the way cities in France run their public transport. Municipalities have started bringing services back under public control when commercial franchises (offered under 'délégations de service publique', DSP) expire. Instead, they are opting either for direct management or for a new type of public enterprise, an SPL (Société Publique Locale), which is a limited company with all shares owned by public authorities. Since 2005, more than 20 public transport networks in 13 municipalities and 7 departments have taken this step.

One of the main reasons cited by local politicians for changing from franchising to direct management or an SPL is to reduce costs. For example, bus services in the town of Saumur (population 61,000) were run by Veolia until 2010, but an audit suggested it would be possible to make substantial savings by bringing bus operations under an SPL "because of the absence of a profit margin"[xxxiii]. Five years on, it is claimed that savings of 15% have been made in Saumur, whilst maintaining services[xxxiv]. The department of Le Tarn (population 380,000) also set up an SPL, in 2011, and its transportation minister said that the reason for doing this was "to contain costs and provide a better service"[xxxv]. In Thionville (population 41,000) an SPL was set up to take over from Veolia in 2013 when its contract expired, and was expected to save €300,000 per year because of the absence of a profit margin, which would be reinvested in order to improve the attractiveness of the public transport service[xxxvi].

In Saint Brieuc (population 118,000), bus services were operated by Veolia-Transdev until 2012. The local authority issued an invitation to tender for a new contract, and received bids from Veolia and Keolis, but rejected both bids because they would have involved an increase in costs of 10% with no improvement of

service. Local politicians decided instead to set up an SPL, because it would give them more control and would ensure that service quality was maintained[xxxvii].

In Périgueux (population 29,000), the local authority issued an invitation to tender for renewal of the public transport contract in 2012, but at the same time commissioned a study to look at the public ownership option. They decided that the bids they received from commercial operators were less attractive than taking bus operations back under their own control[xxxviii].

Other examples of French cities that have opted for direct management or SPLs include Nice, Toulouse, Cannes and Marseille. These examples suggest that the experience in France is that the additional cost of procuring public transport services via commercial contracts, and in particular the costs of the commercial profit margin, can be very significant.

Municipalisation in France extends beyond the transport sector. When Paris municipalised its water supply service in 2010, it reduced costs by €35 million per year, partly because dividends to shareholders of the previous private operators Suez and Veolia were no longer payable. As a result of this the city was able to reduce drinking water tariffs by 8%[xxxix]. The success of the water municipalisation in Paris has led other towns to bring water management back under public control. Further evidence from the same sector suggests that among medium and large French cities, those with the cheapest water rates were nearly all run by public bodies, while those with the most expensive were mainly run by Veolia or Suez[xl].

Social enterprises can offer another way to retain within the bus network money that would otherwise be paid out as shareholder dividends. The largest British example of a not-for-dividend social enterprise operator is HCT Group. HCT tags itself 'the world's leading transport social enterprise', saying 'profits are reinvested into high social impact transport services or projects in the communities we serve'. In fact, the Group has teetered in and out of profit in recent years and the formal reinvestment figures (£100,000 per year for the last two years) appear less significant than the way in which the group approaches its operations with the aim of maximising provision of transport services within its operating budget and growing its operations to provide services to more people (HCT Group has grown rapidly to a turnover of £45 million). It is difficult to assess the value added by this approach to the business, although HCT does try to measure the benefits from its approach, reporting on a set of non-financial 'social impact' targets that it has set itself. Targets and results to date include[xli]:

- 'Trips provided to disadvantaged individuals' (5-year total 1.1 million, far above target)
- 'Jobs created at HCT Group' (5-year total 356, above target)
- 'Unemployed people who obtained jobs' (5-year total 386, slightly below target)
- 'Individuals who gained qualifications' (5-year total 2500, above target).

Although HCT has surpassed its target for provision of jobs, the quality of its pay and conditions has sometimes been criticised, as discussed later in Section 4.2.8.

HCT is also taking some innovative steps to try to achieve a transport network that works as a whole, drawing on its background as a community transport provider. For example, its Parish Link in Jersey is trialling volunteer-driven small vehicles as feeders into the main bus network, which HCT also runs.

# 4. What would a world-class bus system look like?

## 4.1 Introduction

This chapter considers what a bus system must be like for its users to rate it world-class. We examine each of the attributes a world-class bus system must have, considering what is needed and why; what the main obstacles are; and how the current system of bus service governance in Britain helps or hinders.

We have identified 16 essential attributes that a world-class bus system requires. These are based on discussions with expert interviewees, responses to a survey of members of the Association of Transport Coordinating Officers (ATCO), and responses to a survey carried out independently by Campaign for Better Transport (CBT), which asked its supporters what they would like to see in the planned Buses Bill. Together, these 16 essential attributes make up a Charter for a World-Class Bus System.

Partly, the essential attributes are about the passenger experience – for example, do bus services go to the places people need to get to, at the times they want to travel; do services run on time; and are the buses smart and comfortable and the drivers friendly?

But in order to provide a good experience for passengers, it is also important that there is adequate funding. This will only happen if decision-makers perceive that the bus system is run efficiently – that is, with the biggest 'bang' for each 'buck' that is invested – so cost-effectiveness is also part of the Charter.

And a bus system will only be world-class if it is provided in a supportive policy context, where decision-makers at every level see good bus services as a crucial ingredient for a prosperous, liveable city-region, and where policy and practice backs this up.

Section 4.2 presents the Charter and then reviews each of its points.

Section 4.3 at the end of this chapter summarises how the present governance system for bus services in Britain rates as a basis to create a world-class system.

## 4.2 A Charter for a World-Class Bus System

**Table 4.1: Proposed Charter for a World-Class Bus System**

| | |
|---|---|
| **A world-class passenger experience** | |
| 1. | A comprehensive bus network, so buses go where you want, when you want |
| 2. | Simple area-wide fares, valid across all local services (buses, trams and trains) |
| 3. | Coordination of timetables and services between buses, and with other modes |
| 4. | Bus services that run quickly and on time |
| 5. | A stable network, so services can be trusted to stay similar from one year to the next |
| 6. | Easy-to-find, comprehensive information for users |
| 7. | Affordable fares, competitive with the cost of driving |
| 8. | Professional passenger-friendly bus company staff |
| 9. | Good quality vehicles and waiting facilities |
| **Cost-effective use of public money** | |
| 10. | Efficient and accountable use of public money that supports bus services |
| 11. | Free bus travel for older people and young people without undue additional expense |
| 12. | All road passenger transport funded and governed together |
| **Buses part of a city's or region's strategic vision** | |
| 13. | Bus network purposely designed to achieve maximum public benefit |
| 14. | One-area-one-network-one-brand |
| 15. | Regeneration and development centred on enhancement of the public transport network |
| 16. | Policies to grow bus use supported by policies to reduce car use |

### 4.2.1 A comprehensive bus network

**What would 'world-class' look like?**

To be world-class, a bus system must provide a comprehensive network, both in terms of the destinations served and the times that services operate. This means:

- Access from all the places where people live, including villages and suburbs, to main employment centres, colleges, leisure facilities, health care and shopping destinations, with services operating at times and at frequencies that match demand and population size.
- Services in the evening and on Sundays as well as during the week; and night-buses to serve major employment sites that operate around the clock.

Sunday services have become increasingly necessary with the rise of Sunday shopping, and are also needed to enable people to visit leisure and tourism attractions in rural areas and towns.

Expert interviewee Professor Peter White analysed trip patterns and found that 40-50% of evening bus trips were the 'return' leg of trip chains that began earlier in the day. This shows that evening services are complementary to commercial day-time services, and help strengthen the network as a whole. Where evening return services are provided, the 'outward' services receive more custom[36].

Some parts of Europe have a hierarchy of bus service provision, giving defined service frequencies and hours of operation for different grades of service. The grade of service each settlement receives depends roughly (but not exactly) on its size. For example, in the Dutch province of Friesland, the most recent contract specification for bus services identifies four different types of bus service, which differ in terms of service frequency and hours of operation[37]. With this hierarchy, most villages of more than 500 people are guaranteed at least hourly services during the working day. In the semi-rural area of Switzerland north of Winterthur, legislation sets out (although it does not guarantee) a three-tiered hierarchy of services. Almost all villages have an hourly service; areas with more demand have a half-hourly service; and urban areas have a service every fifteen minutes or more frequently[xlii]. (Boxes 5.3 and 5.4 in the following chapter provide more detail of how these systems work).

**What is the current reality?**

Outside London and main conurbations, a comprehensive bus network including good evening and Sunday services is the exception rather than the rule.

This was the most common concern of respondents to the CBT survey. Typical comments included:

> *"Our buses have been cut so much, it is no longer possible to get to our district town (Fleet) by bus (from Yateley). This should not have been allowed to pass. What happens if you need to get to the council offices, particularly if you are disabled or elderly? Currently we have to go out of the county, and change three*

[36] And conversely, where evening services are cut, daytime services may also be rendered unviable.
[37] The specification was published in June 2015; the contract will cover the south-eastern part of the province plus some islands from the end of 2016 and there are plans to subsequently extend it to cover the whole province. http://www.fryslan.frl/aanbesteding-ov, accessed 19.08.2015 and http://skylgenet.nl/nieuws-terschelling/2015/03/fryslan-komt-met-voorlopige-eisen-ov-concessie-2016/, accessed 19.08.2015.

*times - a trek which would take all day, yet the two towns (the two largest in the district) are only five miles apart!"*

[CBT survey]

*"We need a better bus service to our local hospital. At present it takes 1 hour 10 minutes to go 2 miles with a 50 minute wait in Lymington with no bus shelters so you get wet when it rains. We have no buses after 16:40 and none on Saturday."*

[CBT survey]

*"Our village is only 9 miles from Bath, our nearest City. A place where we shop, attend hospital and connect with the rest of country. We might as well be in Outer Mongolia! Many have no car, or the means or ability to have one. Students can't get to college, the list goes on. One of the worst things is the way the bus companies behave. NO consultation or notification. No chance to come up with compromises. We are willing to negotiate but not given the chance. Rural businesses are at risk because not only is super speed broadband not available, but now no one can get to work! We need to rethink this, maybe the time has come to make public transport really PUBLIC! Capitalism is fine, but not when it causes such hardship, uncertainty, leading to many suffering in the need to make profits for some. The clue is in the word PUBLIC."*

[CBT survey]

The absence of a comprehensive bus network across much of Britain is due to a combination of factors. In particular:

- Commercial operators focus on a core network of the most profitable routes and times of day. Decisions about which services to operate are based on cherry-picking routes for profitability; the wider social, economic and environmental benefits of operating a comprehensive network do not feature in the decision-making process.

- There is no requirement or mechanism to invest profits from the core network in running less profitable but socially important services.

- Local authorities are supposed to fill gaps in the commercial bus network by letting contracts to operators to run socially important but unprofitable services. However, current local authority funding cuts mean that many of these services are disappearing. Our survey of ATCO members found many reports of funding cutbacks that had resulted in the loss of evening and Sunday services, or settlements losing their service altogether. For example, one local authority officer in a local authority that was moderately 'pro-bus' reported that funding for tendered bus services had been cut by more than 50% in the past five years. The result was that:

  *"Many local links have been lost and the main out of town shopping and leisure complex is no longer served. Five villages retain a commercial hourly (with some gaps) Monday to Saturday daytime service and two have a twice-weekly parish-funded service (previously hourly). The remaining five villages are no longer served, although a parish-funded twice-weekly service is in the pipeline for three. Evening and Sunday services are now restricted to the core urban commercial network plus a small number of inter-urban links, mostly limited stop."*

  [ATCO survey]

- Under the reimbursement system for older people's concessionary travel, local authorities pay substantial but unpredictable sums to bus operators. At a time of funding cutbacks, this creates a perverse incentive for local authorities to cut funding for socially important services: if fewer bus services run, concessionary

pass holders will travel less by bus and the reimbursement cost to the local authority will be less.

- Tendering for socially important services is reactive, 'gap-filling' rather than taking the long strategic view of what services are needed. This problem is worsened by the fact that commercial services can be removed at short notice (with operators only required to give the Traffic Commissioner eight weeks' notice of their intention to stop running a service).
- In some areas, there is a shortage of bus operators willing to tender for services, because so many smaller operators have been taken over by large operators.
- Bus operators sometimes 'game' the system: for example, cutting or truncating a service they know the local authority sees as socially necessary, in the expectation they will then win the tender to reinstate it; or introducing a commercial service in order to undermine a tendered service for which the contract has been won by a rival company; or not bidding to operate tendered services in other operators' territory (thus potentially increasing tender prices).

Where municipal bus companies exist, some local authorities are able to create a larger network by extracting a 'social dividend' in place of a commercial dividend (Section 3.4 describes how Reading's bus company uses this money to run a network of non-commercial evening and Sunday services that is much better than in other similar-sized towns). However, municipal companies cannot deploy this social dividend to its maximum potential, because they must adopt strategies that enable them to protect their market share against commercial rivals.

**How far do current forms of bus governance enable a world-class system?**

- The current deregulated system outside London makes it impossible for either the bus operator or the local authority to design a comprehensive network. There is no ability to use profits from commercially viable routes to expand network coverage. Public monies to expand network coverage cannot be used efficiently under the present system.
- In the few places where municipal bus companies still exist, local authorities have some scope to choose to fund a larger network by not taking their shareholder dividend. However, under the deregulated legal framework municipal companies must adopt defensive strategies that militate against the most strategic use of this 'social dividend'.
- The regulated franchising system in London enables strategic network design, cross-subsidy between commercial and non-commercial routes to help increase network coverage, and facilitates efficient use of public subsidy.

### 4.2.2 Simple area-wide fares valid across all local services

**What would 'world-class' look like?**

From a passenger perspective, local public transport needs to feel like a single network, with a single easy-to-understand ticketing system.

Tickets should be valid on all forms of public transport (buses, trams and trains), with no distinction made between modes or between operators.

Many European cities and regions have integrated 'tariff unions', so that *all* ticket types (single, return, multi-trip, weekly, monthly and annual season tickets) are valid for all modes of public transport, regardless of the operator. This is similar to the Oystercard system for bus, tube and Overground travel in London.

A world-class system would include 'Pay As You Go' (PAYG) smart ticketing, with 'capping' of the maximum price a passenger pays for multiple trips in any single day, or single week. This is how stored value PAYG works on the Oystercard system in London[38]. It means that passengers do not need to know exactly what trips they will make during the next day or week in order to work out whether it is better to buy a one-day ticket, one-week ticket, or individual tickets for each trip.

A world-class system would also be nationwide, so that stored value on a smart card could be used for PAYG travel anywhere in the country – in the same way that bank cards can be used in any cash machine of any bank, in any town.

**What is the current reality?**

Many places outside London have a large and confusing range of tickets, including tickets valid on some buses but not others, or on buses but not on trams or local trains. For example, Tyne and Wear has more than 100 bus ticketing products[xliii].

Some British cities have multi-operator tickets, but these are more expensive than the tickets of individual operators. They are often not publicised by operators (who prefer to sell a ticket that is only valid on their own services), and they may have to be bought in advance whereas the equivalent single-operator ticket can be bought on the bus. Passengers typically have to pay around 25% more for a multi-operator weekly season ticket, as shown in Figure 4.1.

**Figure 4.1: Excess cost of multi-operator 1-week ticket for bus travel in five areas with multi-operator ticketing agreements**


Source: data from bus operator and local authority / PTE websites, August 2015. In each case, 'Operator 1' is the largest operator in the area in question, measured by market share of weekly bus vehicle trips, and 'Operator 2' is the next largest operator. Excess cost is calculated as the percentage cost of the multi-operator ticket above the average of the cost of Operator 1 and Operator 2 tickets.

While competition law allows the local authority or PTE and bus operators to work together to create a multi-operator ticket, secondary legislation (Article 7 of the Public Transport Ticketing Schemes Block Exemption Order) expressly forbids any multi-operator agreement that would prevent an operator offering other prices, fare structures or areas of validity for its own bus services[xliv]. Yet this is exactly what is

[38] Trent Barton's MANGO card also offers stored value PAYG with daily, weekly and 4-weekly price caps. However, the card can only be used on Trent Barton's buses, so passengers using a mixture of Trent Barton services and, say, Arriva services in Derby cannot use their MANGO card for all bus trips.

needed in order to create a simple, transparent, comprehensive ticketing system for bus passengers.

Bus operators point to Oxford as an example of cooperation between competing operators (Stagecoach and Go Ahead) to develop multi-operator tickets, but a detailed analysis of the Oxford SmartZone by pteg[xlv] identifies many respects in which the Oxford arrangement is deficient compared to the Oystercard in London. These include:

- No stand-alone SmartZone smart card; passengers must use Stagecoach or Go Ahead smart cards;
- No stored value (PAYG) option with a capped price, that would give passengers the best deal;
- The scheme does not cover smaller operators;
- No standardisation of communication and marketing between the two participating operators, leading to inconsistencies in the information offered to passengers;
- An extremely wide range of competing ticketing products, covering many different time periods and different areas;
- No impartial source of information and advice;
- No comprehensive retail network to buy smart cards;
- Depending on where the smart card is purchased, it may or may not be available for immediate travel.

The pteg report comments that the Oxford SmartZone has involved a third (integrated) ticketing system being placed on top of two individual (and competing) systems – and indeed, this is exactly what is currently required by competition law.

Smart ticketing systems are currently being developed in other cities and conurbations. However, these also fall a long way short of the Oystercard in London, and are likely to continue to do so. One respondent to the CBT survey commented:

> *"Putting paper season and multi-ride tickets on plastic doesn't achieve much: the key benefit of smart ticketing is PAYG."*
>
> [CBT survey]

For example, in Merseyside, the Walrus smart ticketing system has suffered setbacks because of difficulties in integrating technology across different companies, with different systems and processes. Merseytravel comments on its website[39] that:

> *"Over the next few years we will be looking to roll out more Oyster-style products. However, because the transport network is regulated and centrally managed in London, the development of smart ticketing in London (i.e. Oystercard) does not face the same challenges as other cities. Outside of London, the public transport market is deregulated and as such, the process is more complicated. For instance, there are numerous independent bus operators, many of whom are already using their own technology."*

A review of all the planned and existing smart card systems listed on the ITSO website[40] suggests that *none* of the 15 cities, conurbations or individual operators

[39] http://www.merseytravel.gov.uk/about-us/media-centre/news/Pages/Merseyside-travel-goes-%E2%80%98smart%E2%80%99-with-first-%E2%80%99Walrus%E2%80%99-card-ticket.aspx, accessed 25.08.2015.
[40] https://www.itso.org.uk/about-us/facts-and-figures/, accessed 25.08.2015.

currently developing smart ticketing have plans for a system that will include PAYG with price capping across all bus operators, although many of these areas are known to have aspirations for such a scheme, if only they could see a route to achieve it. If Tyne and Wear had won their case for franchising under a Quality Contract Scheme, they would have been able to achieve capped PAYG, and their scheme proposal included this.

**How far do current forms of bus governance enable a world-class system?**

- Under the current legislation, it is not possible for bus operators and local authorities outside London to emulate the comprehensive, simple, fully integrated ticketing system that operates in London and elsewhere in Europe.
- A great deal of effort is being expended on developing supposedly 'smart' ticketing systems in cities and conurbations, but under the current deregulated arrangements these are unlikely to be able to offer PAYG with price capping valid across all operators' buses. Most smart ticketing systems will essentially be a plastic version of a paper ticket.

### 4.2.3 Coordination of timetables and services between buses, and with other modes

**What would 'world-class' look like?**

To provide the best service to passengers, buses should be timetabled so that:

- There are **convenient connections between bus services at significant interchanges**, both in rural areas (where services may be infrequent) and in town centres (where many services may terminate). This is important because a high proportion of travel demand is to non-town centre locations[41].
- On corridors with more than one bus route, the different bus services are timed to **minimise passenger waiting times by providing an even headway** (e.g. if there are two routes with a common section running every 20 minutes, they should be coordinated to give a 10 minute combined headway).
- Bus services are **coordinated with trams and trains**. For example, suburban feeder bus services to the end of a tram line may potentially provide the fastest, most frequent service to a town centre, and where this is the case it is better for bus services to terminate at the last station on the tram line rather than continuing to the town centre in competition with the tram. In rural areas with relatively infrequent bus services, it makes sense wherever possible for bus services to connect with trains – arriving shortly before the train, and departing shortly afterwards. This principle has been adopted as part of the Swiss 'Taktfahrplan', a system for coordinating the timetables of all public transport services[xlvi].

[41] One of our expert interviewees estimated that typically over 70% of travel demand in urban areas is to locations outside the city centre.

**What is the current reality?**

The main obstacles to coordination of timetables by operators have been the absence of any one organisation with a complete overview of the network, and the fear of operators that by cooperating, they could breach competition law.

In a deregulated environment, operators run the routes that are in their best commercial interest, rather than the routes that make best sense as a joined-up bus network. This means that in cities where two operators have a significant market share, each operator focuses on its own 'territory' rather than seeking to coordinate timetables with other operators at key interchanges. Competition law makes it more difficult for bus operators to collaborate over timetabling of their services at interchanges, even if they wish to do so, as this could be seen as an anti-competitive practice designed to inhibit entry of other operators into the market. This tends to lead to a cautious approach by operators.

On routes with head-to-head competition between operators there is a commercial incentive to time services so that they run just ahead of the competing operator's buses (sometimes called 'predatory timetabling'). Even if two operators wished to cooperate to create even headways on a section of route that they both operated, they would again risk coming into conflict with competition law.

Since 2009, legislative changes have made it somewhat easier to coordinate timetables without infringing competition law. The Local Transport Act 2008 gave powers to local transport authorities to draw up agreements with bus operators that specify the frequencies and timing of services, and these can be used to ensure even headways on routes with more than one operator[42]. Merseytravel has used these powers to ensure even headways on bus routes that are part of its Quality Bus Network. The process of drawing up these agreements is nevertheless fairly complex, and there are relatively few examples of places where they have been used to introduce even headways.

The main obstacle to coordination between buses and other modes is the absence of any organisation with an overview of the whole public transport network and directive powers to specify what services should run where.

Instead of regarding trams and trains as part of an integrated public transport network alongside buses, bus operators often see these as competitors. One of our expert interviewees cited the example of Nottingham, where buses would ideally be used to provide feeder services to tram stops in outer district centres, rather than to run in parallel to the trams into the city centre. However, for bus operators, the business case for running feeder services to tram stops is far less attractive than the business case for running bus services parallel to the tram or train route to capture revenue from the full length of the journey. This means that it has not been possible to design a properly coordinated bus and tram network for the city, and the resulting network is sub-optimal.

[42] These may either be statutory Quality Partnership Schemes or Voluntary Partnership Agreements. The Local Transport Act 2008 enables both to include coordination of timetables of services run by different operators.

Another expert interviewee cited the example of Tyne and Wear where:

> *"[Deregulation] destroyed the … approach of making the Metro the backbone of the system with buses [feeding in] at places like Four Lane Ends station in the North of Newcastle where people could get off the Metro and on to a bus."*
>
> [Expert interviewee]

A third expert interviewee made a similar point:

> *"[There is a] big problem [with] planning. If you have a city where you want to link the new and emerging employment sites with where people live, and you're considering a light rail system or a trolley bus or whatever, you want the buses to integrate with that and connect up. You can't do that very easily in a deregulated environment because you can't tell the operators where to put services. And if you want a service they are not providing then you pay extra."*
>
> [Expert interviewee]

The Swiss Taktfahrplan, coordinating the timetables of trains and buses across the country, would be inconceivable in the British deregulated environment, because of this inability to plan what services are delivered, at what frequencies, in what locations. One of the respondents to the CBT survey described the practical effect of this lack of coordination between modes:

> *"How can we encourage workers to switch from cars to buses when timetables will often not allow them to do so? I wanted to be able to commute into London, but there is NO direct bus connection to a mainline commuter rail station, even though there are two just four miles away - and our town is approx. 25,000 population. The bus timetable means the earliest I was able to get to my London office was after 9.30am - and returning, it would take me longer to do the 4 mile trip from the rail station to my home on the bus, than it did to do the 35 mile trip from London on the train. No wonder no one uses the buses."*
>
> [CBT survey]

**How far do current forms of bus governance enable a world-class system?**

- The requirement that operators outside London must be able to engage in head-to-head competition – a basic tenet of competition law – is not compatible with coordination of timetables between bus services. Efforts to moderate the damaging effects of competition law in this respect, through statutory quality partnerships and voluntary partnership agreements, have had only limited take-up in the six years since they were introduced in 2009.
- No organisations are charged with duties and powers that enable them to take an overview of the whole public transport network in a city or region and create coordinated timetables and services between buses (and with other modes of transport).

### 4.2.4 Bus services that run quickly and on time

**What would 'world-class' look like?**

A world-class bus service would be punctual, so that passengers could be confident that services would leave and arrive at, or very close to, their scheduled times. This is particularly important for less frequent services.

World-class bus services would also be quick, benefiting from extensive bus-priority infrastructure to ensure buses could bypass traffic jams and achieve journey times as good as or better than travelling by car.

**What is the current reality?**

The Traffic Commissioners set punctuality standards that bus operators are expected to meet. These include standards that 95% of all timetabled services should depart from the starting point of the journey within the bracket of 'up to 1 minute early or up to 5 minutes late'; 95% should arrive at their final destination no more than 5 minutes late; and an absolute minimum of 70% should depart intermediate bus stops (or 'timing points') within the bracket of 'up to 1 minute early or up to 5 minutes late'[43]. Guidance from the Traffic Commissioners[xlvii] states that:

> *"Operators must construct their timetables to take account of known peaks of congestion etc…. An operator always has the opportunity to persuade a Commissioner that there was a "reasonable excuse" for a bus failing to run to its registered timetable, but the Commissioner will be particularly interested in patterns of timekeeping and whether the operator had taken all reasonable steps to ensure buses run to their published times."*

In theory, the Traffic Commissioners can fine failing bus operators, but research by pteg[xlviii] concluded that punctuality standards are rarely achieved, there is no effective oversight and only very limited enforcement.

One respondent to the CBT survey highlighted the bus users' experience:

> *"Since moving to Hampshire, I don't think I've been on a single route where the timetable is accurate. It doesn't matter if the excuse is traffic, or an accident, or vehicle maintenance - timetables don't match experience, and they should be adjusted accordingly to ensure they do."*
>
> [CBT survey]

Nationally, only 83% of 'non-frequent' bus services (those with five or fewer services per hour) run on time[44]. This means that nearly one in five buses are delayed – enough to introduce significant uncertainty for passengers. This increases the amount of time that has to be allowed for a journey: a commuter using buses to get to work might arrive late once a week unless they build leeway into their journey by catching the bus before the one they really need.

A small proportion of bus services (around 1%) do not arrive at the bus stop at all, because they never set out from the depot. Statistics for lost scheduled bus mileage[xlix] in England outside London show that traffic congestion, staffing problems[45] and mechanical problems are responsible for similar proportions of lost mileage.

Traffic congestion is primarily an issue to be tackled by local authorities, but to do this most effectively they need to work collaboratively with bus operators, who know from their day-to-day operations where a bus lane is needed to bypass traffic delays, where traffic light phases need to be changed, and where more proactive enforcement of illegal parking is required. Where local authorities and bus operators have worked closely together to tackle congestion issues, there have been some significant improvements in punctuality and reduction of bus journey times. Where

[43] There are further standards for frequent services (where the service interval is 10 minutes or less).
[44] 'On time' is defined as between 1 minute early and 5 minutes 59 seconds late. Figures are for year ending March 2014, available at https://www.gov.uk/government/publications/proportion-of-bus-services-running-on-time.
[45] 'Staffing problems' are categorised as 'within operator control' in DfT statistics tables but are not further defined.

competition leads to bus-on-bus congestion each operator's self-interest may conflict with the best solution for the whole network. Voluntary and Statutory Partnerships have been used to tackle these kinds of situations, but they require an investment of administrative time and effort.

There are two aspects to congestion management: efficient management of all traffic flow, for example by enforcing rules that prohibit unloading where it causes blockages; and installation of bus priority measures where congestion is unavoidable, so that buses can bypass traffic jams.

Bus priority measures are particularly important, because, in addition to raising punctuality, they help achieve fast journey times that can make bus travel attractive to car users. However, one of our expert interviewees from local authorities pointed out that the burden of bus priority infrastructure spend falls more heavily on councils because no bus operator will invest in these measures when any competitor could then come along and use the facility for free, 'despite that fact that most of this investment directly improves a commercial bus service'. Another expert interviewee cited an instance of councillor resistance to investment in bus priority, because the bus operators who would benefit financially were not prepared to help fund the infrastructure investment.

Other local authorities are reluctant to apply bus priority measures that they see as disadvantaging car drivers. Amongst respondents to the ATCO survey, lack of political or senior officer support for bus services was one of the two most-mentioned obstacles to improving bus services (mentioned as often as the various aspects of deregulation), and traffic congestion / lack of bus priority measures was in the top four most-mentioned obstacles.

Even where there is political backing for bus priority the deregulated system inhibits local authorities from incorporating bus priority into redevelopments:

> *"The inability to control the number, routing and quality of buses using key streets within the city centre often leads to inability to 'plan in' buses into major redevelopment areas – often where bus priority is most needed."*
>
> [Expert interviewee]

For punctual reliable bus services, good road network management by local authorities needs to be complemented by good planning and management of services by bus operators. This means timetabling services in a realistic way, so that buses can make up time when there are delays, with adequate layover times at the beginning / end of a route, , adequate time to complete the route under heavy traffic conditions, and enough buses and drivers to complete the timetable that has been registered with the Traffic Commissioners.

One of our expert interviewees pointed out that the commercial imperative to cut costs by reducing staff cover is one of the reasons why bus services may be cancelled. In his experience, this was different before deregulation when buses were municipally run:

> *"The company I've just retired from, if a driver doesn't turn up for his shift at 6.03 in the morning that bus doesn't go out. Back in the public sector, we had three or four drivers who came on at 5 am, and sat as what we called reserve, just waiting for that to happen. Every day now, buses don't go out because there aren't the staff."*
>
> [Expert interviewee]

The same expert interviewee argued that pursuit of 'efficiency' by commercial operators had led to worsening reliability after deregulation, but that to some extent, lessons were now being learned about the need for realistic timetabling:

> *"What we used to have was stage carriage services trundling along with good running times, and having a bit of time at the terminus before you'd come back out again. The private sector thought this was inefficient, giving us 5 or 10 minutes at the terminus on paid time – they thought they must be able to cut that out. So they cut running times down, they cut the layover times down; but of course if you run late now you can never make your time up. So reliability goes out the window, then [the company] loses passengers because nobody can rely on the bus services. Slowly, they're learning – so what we've seen in the recent period in First Group in Sheffield is some of this time starting to be put back. We've started to see the service reliability improve again; we're putting the cost back into the network to do it. And all those costs were taken out, under the private sector in those early days of deregulation, and for the years that followed. They kept on sending in new business analysts to see where further costs could be cut."*
>
> [Expert interviewee]

This comment appears consistent with experience elsewhere: for example, in Bristol, recent timetable changes by the bus operator (also First Group) emphasise changes such as extra time being added to the schedule, relocation of the city centre terminus for some services, and extra buses and drivers, as a means to improve punctuality[I]. Across England, bus punctuality statistics suggest that the situation is improving: the proportion of local authorities in which fewer than seven in ten buses run on time has fallen steadily from 12% in 2008/09 to 3% in 2013/14, and the proportion of local authorities in which more than nine out of ten buses run on time has risen over the same period from 13% to 25%[46].

**How far do current forms of bus governance enable a world-class system?**

- Deregulation inhibits bus operators contributing to investment in bus priority infrastructure that is essential to achieve rapid punctual buses, and inhibits local authorities building bus priority infrastructure into major developments.
- Some areas are achieving the cooperation between highway authorities and bus operators that is necessary to achieve quick bus journeys with good punctuality. Voluntary and Statutory Partnerships may offer solutions where informal cooperation is insufficient, but these come at an administrative cost.
- Historically, deregulation led to a focus on 'efficiency savings' which was not conducive to service punctuality. However, some operators now recognise this, and in the last few years, punctuality has started to improve.
- The current powers of the Traffic Commissioners to regulate the bus industry are not an effective way of ensuring buses run on time.

[46] Authors' analysis of DfT 2015 *Statistical Table BUS 0902*, available at https://www.gov.uk/government/statistical-data-sets/bus09-frequency-and-waiting-times.

### 4.2.5 A stable bus network

**What would 'world-class' look like?**

It is important for a world-class bus system to be fairly stable, both in the short term and in the long term. In the short term, a stable network enables users to become familiar with routes and enables transport authorities to produce information materials covering the network. In the long term, stability is essential to persuade people that they can rely on the bus network when making major decisions about where to live or work. Such decisions are important to build long-term viability of a bus network, as well as to achieve less car-dependent towns and cities.

Although new developments and major events such as the Olympics justify occasional changes to bus services, alterations to routes and timetables should be minimised and should occur at predictable intervals (as they do for train services).

A world-class example is provided by the Dutch province of Friesland, where the most recent contract specification for bus services will allow the winner of the concession to change the timetable no more than once a year, on the same date as the timetable change for rail services[li]. The terms of the concession set out in detail who must be consulted about timetable changes, including residents, municipalities, and local consumer organisations; how long in advance of timetable changes the consultation must take place (four months); and a formal process for ensuring that comments and proposals by consultees have been adequately taken into account.

**What is the current reality?**

Under the present deregulated system bus operators can introduce, alter, or remove services where and when they wish[47]. Local transport authorities cannot prevent commercial services being removed[48], and no public consultation is required even though some individuals may experience severe transport difficulties as a result of the service changes. Even on routes where services continue, every time there is a route or timetable change some bus users may be caught unawares, missing a retimed bus or experiencing an extended wait[49].

Small timetable variations happen frequently: for example, a search of the VOSA[50] database for the medium-sized town of Shrewsbury reveals 25 applications from commercial operators for timetable variations on 13 different bus routes in the year to August 2015. This is not an exceptional situation: Shrewsbury is not a bus competition hot-spot[51] where the bus market is in major flux. The changes appear mostly to be part of a normal process of adjustments by operators.

Because changes are so frequent, local transport authorities find it difficult and resource-intensive to keep even the most basic public information about bus services, such as timetable information at bus stops, up to date and accurate[52].

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[47] The only requirement is to inform the traffic commissioner 56 days in advance.
[48] Local authorities only option is to subsequently tender for the service to be provided with public subsidy, if funds are available.
[49] This is a problem even if communication by operators of timetable and route changes is good. In practice, communication is normally not good, and there is no requirement on operators to publicise changes to commercial routes or timetables.
[50] Vehicle and Operator Services Agency
[51] Arriva is dominant in the area.
[52] In practice the result in many cases is that printed timetable information on bus stops tends to be out of date and the passenger at the bus stop cannot be confident that the bus will come at the time indicated.

In areas with active competition between operators, the bus network is subject to major instability whenever an operator decides to increase its market share by adding a new service. Apart from the immediate change to the network due to the new service, there then follows a period of increased instability and uncertainty as the incumbent operator makes changes in order to defend its market share. The Competition Commission Inquiry into local bus services was advised by operators of multiple instances where service frequencies were changed as a defensive mechanism in response to a new competitor service[lii]. Thereafter bus users (and bus operators and the local transport authority) experience a period of uncertainty until the incumbent or the challenging operator is vanquished[53], at which point there will be a further change to services:

> *"A number of local authorities told us that the nature of competition following [market] entry was unstable. For example, Caerphilly County Council stated that 'the pattern was generally competition, followed by consolidation (acquisition/demise of weakest operators) and ultimately a reduction in service levels, as victorious operators were left with depleted reserves and were unable to invest to maintain or grow the market'."* [liii]

Such forces will always be at play when there is a competitive free-for-all. Cornwall's concern that the county's bus network is 'unstable' is one of its reasons for seeking bus franchising powers[liv]. Similarly, the Nexus proposal for a Quality Contract bus franchising scheme for Tyne and Wear specified that they would maintain a stable network and only alter services after going through an open process:

> *"To maintain stability and improve customer confidence in the local bus network and thus increase patronage, service changes will be kept to a minimum...Any future changes [will] only be determined following a clear and transparent Governance Process."* [lv]

Changes to the commercial network may have knock-on consequences for the services tendered by local transport authorities. A further problem for tendered services is the instability of local authority funding for bus services. People living in areas with non-commercial tendered services may experience repeated network changes for budgetary reasons, or may see their buses disappear altogether. In our survey of ATCO members, almost three-quarters (73%) reported that their local authority had cut funding for bus services in the past five years. The effects of this varied, but some local authority officers reported that continued cuts meant that changes in policy were now being considered that could result in large rural areas losing their bus services, that whole services (not just evening or Sunday services) had been withdrawn, or that in rural areas, services had been 'thinned out' so that they were no longer suitable for work trips.

Inability to create network stability undermines long-term ambition for the bus network. The semi-rural Weinland area of Zurich canton is difficult territory to create an integrated network where buses link with each other and with trains, but this has been achieved:

> *"High standards and rigorous coordination through central network planning have allowed a network to be created, despite the low frequency of services, in a seemingly public transport-hostile environment."* [lvi]

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[53] It is the exception for a route to have sufficient custom to bear profitable operation by more than one operator. For most routes competition is therefore on a 'winner-takes-all' basis. See Competition Commission 2011 *Local bus services market investigation* para 6.110.

This quality of network planning relies on high network stability with a guiding mind controlling changes to the network, where the carefully planned system is not subject to perpetual disruption at the whim of individual operators. Bus deregulation in Britain forestalls any hope of aiming for such a network.

**How far do current forms of bus governance enable a world-class system?**

- The deregulated bus system outside London is in fundamental conflict with bus network stability.
- In those areas where local transport authorities continue to own a municipal bus company they may be able to exert somewhat greater influence over network stability. However, under the deregulated regime they cannot prevent changes forced by competitive moves from rival operators.
- Franchising of bus services as in London enables the transport authority to specify and maintain a stable network.

### 4.2.6 Easy-to-find comprehensive information for users

**What would 'world-class' look like?**

A world-class bus system would have excellent easy-to-find comprehensive information for users, which is up to date and gives everything users need to know in a single hit.

All timetables and bus maps would provide information about all relevant services, rather than only giving information about the services of a single operator. Up-to-date bus network maps would be readily available for all parts of the country. Every bus stop would display an up-to-date timetable. On-line journey planners would also be up-to-date. Major destinations such as visitor attractions would always provide good quality information on their websites about how to reach their site by public transport.

Real-time passenger information (RTPI) about when the next bus is due would be available for all bus services, both at main bus stops and via mobile phone apps.

Most of this is currently available in London, but elsewhere in Britain information provision falls short.

Provision of basic information about services is the lowest level of publicity that bus services should have. A world-class bus network would be backed by a much wider marketing campaign to promote particular services and the whole network. In the minority of cases where bus services have been strongly marketed in Britain, strong increases in patronage have been achieved[54], increasing the sustainability of those services and the rest of the local bus network and thereby bringing benefits to all users.

**What is the current reality?**

In areas where several companies operate in competition, timetables and bus maps produced by individual operators often only show their own services rather than the

[54] The New Forest Tour, strongly marketed by the New Forest National Park Authority, is an example where promotional activities increased patronage to commercially viable levels on services that were previously uneconomic.

entire network. There may be no single source of information that covers the whole network. One of our expert interviewees pointed to several examples of this:

- In the Bournemouth and Poole built-up area, Go-Ahead runs bus services on a major corridor between the towns, in competition with Yellow Bus (owned by RATP). Go-Ahead maps and timetables show only their own services, and not those run by Yellow Bus – and vice versa.
- In Plymouth, the dominant operator (Plymouth Citybus, again owned by Go-Ahead) accounts for slightly over half of bus vehicle trips, while First[55] accounts for about a third of bus vehicle trips. In the past, bus routes operated by their predecessor companies functioned as a single network. But now, each company has a map showing its own network and there is no map (even on the local authority website) showing the whole network.
- In Norwich, services are run by Anglian Bus / Konect Bus (owned by Go-Ahead) and by First. Maps produced by Go-Ahead do not show the First bus routes, and vice versa. The local authority travel website does not provide a map showing the whole network.
- In Leicester, the city council *does* produce a map showing the routes operated by all bus companies. But Arriva, one of the main operators, also produces a map showing only its own routes, which is misleadingly labelled as 'Leicester Bus Service Network'.

Provision of timetables at bus stops is very variable across the country. Under the Transport Act 2000, local transport authorities are responsible for working with bus operators to ensure local bus information is available, if necessary by providing it themselves. But good practice guidance produced by the Association of Transport Coordinating Officers suggests that in many areas of the UK, less than 30% of bus stops have up-to-date timetables[lvii]. One of our expert interviewees commented on this local council duty:

> *"[There is an] expectation from the operators that local authorities will look after a number of aspects, almost as a free gift to them. Around here, all the timetable information is done by local authorities. If it was suggested that the council should do Tesco's marketing for them that would just be seen as ridiculous. Because of the legacy of buses having been a public service, that's still seen as being acceptable."*
>
> [Expert interviewee]

In a context of local authority funding cuts, this issue becomes more acute. Every time an operator changes the timetable, the information at each affected bus stop has to be changed. According to the ATCO good practice guidance, replacement of timetables as a result of bus service changes can happen perhaps six times a year at any given bus stop. When multiplied across all the stops in a local authority area, this substantially increases the cost, and time burden, for local councils in which staff cuts may already have reduced capacity.

It is therefore not especially surprising when bus stops have no information at all, or have information that is out of date.

[55] Since the discussion with this expert interviewee First's operations in Plymouth have been taken over by Stagecoach. At the time of writing there was still no combined map to be found on the web.

On-line journey planners (such as the publicly-funded national facility Traveline) *are* generally reliable, although inaccuracies do sometimes arise when operators alter services[56]. Other important online sources of information for bus travellers, particularly websites of key destinations, are normally of poor quality, or non-existent. It is an ongoing struggle for such destinations to repeatedly update their websites with changes to timetables. A further problem is that neither the destinations, bus operators, Traveline, or local authorities see it as their job to provide this information and keep it up to date. This can be particularly important for destinations such as hospitals, health centres and other public facilities which people are likely to only visit occasionally, because their users are likely to be less familiar with the bus services than regular bus users travelling to work, education or other everyday activities. It is also a significant problem for people making one-off leisure trips to visitor destinations.

To provide real-time information about how buses are running (either at the bus stop or via a mobile phone app or other means), buses must be equipped with on-board tracking units. All buses in London have had this equipment for some time, but elsewhere the proportion of buses equipped with tracking units has until recently been quite low. This is now changing, as bus operators have started to fit GPS-enabled ticket machines. By 2013/14, 96% of buses in English metropolitan areas, and 86% of buses in non-metropolitan areas, were fitted with tracking units[lviii]. This means that mobile phone apps giving real-time information are likely to become increasingly available outside London. Bus operators Arriva, First, Go-Ahead and Stagecoach are all either developing 'next bus' apps or have recently launched them, but only giving information about their own services. PTE areas and local authorities are also developing their own apps (e.g. Network West Midlands; Travelwest Bus Checker) showing all operators' services (with a mixture of real-time and scheduled departure times, as some smaller operators have not fitted their buses with on-board tracking). Apps are also being produced by independent developers.

Real-time information displays at bus stops are installed and managed by local authorities and PTEs, using real-time data-feeds from bus operators. The proportion of bus stops with real-time information displays is small (we estimate about 11% of bus stops in London, and about 2% of bus stops outside London[57]). Where real-time displays have been provided at bus stops, the capital cost has generally been borne by the local authority. Local authorities, who have very limited revenue resources, cannot directly access bus fare revenues on profitable routes to contribute to ongoing running costs of real-time information systems, and have to rely on negotiation and persuasion to convince all their bus operators that it could be in their shared longer-term interest to bear the costs of upkeep. This situation tends to undermine the case for further public expenditure on real-time passenger information displays, since councillors are unwilling to back plans that may lead to ongoing expenditure.

[56] For example, Traveline Cymru failed to register the existence of a Lloyds Buses service in the vicinity of Machynlleth. When one of the authors pursued this, Traveline promised to look into the problem but the bus company were dismissive, saying they had already informed Traveline and indicating they intended to take no further responsibility for the matter.

[57] Based on DfT *Statistical Table BUS1003* for 2011 (data series no longer updated) and ATCO estimate of number of bus stops nationally.

**How far do current forms of bus governance enable a world-class system?**

- Deregulated bus governance outside London no longer appears to be significantly restricting the growth of availability of GPS-enabled ticket machines, at least with major operators. In theory, therefore, real-time information about how buses are running could become widely available via mobile phones. In practice, however, operator-specific approaches are leading to fragmented real-time information provision. Striking deals with operators to support running costs of real-time information display systems is a fraught and uncertain process, making it more difficult to roll out RTPI.
- Provision of bus information through other channels is much more difficult to provide under the deregulated system. Updating information is resource-intensive for local authorities, because operators can change services whenever it suits them and all the different operators may make changes at different dates. As a result, many timetables at bus stops are out of date or not provided at all; and destinations such as tourist attractions have no simple 'one stop shop' that enables them to provide specific 'how to get here by bus' information. In addition, operators' own information generally puts their commercial self-interest ahead of the bus users' wider interest, with bus maps and timetable publications only showing their part of the bus network.

### 4.2.7 Affordable fares, competitive with the cost of driving

**What would 'world-class' look like?**

A world-class bus system would have fares that passengers felt were reasonable for the service provided, and that were competitive with the cost of driving.

Affordable fares are socially important because lower income groups[58] rely on buses. Bus use by single-parent families is twice that of two-parent families, and over half of households in the lowest income quintile do not have access to a car[lix]. Women and older people are also more likely to use buses and be reliant on them[lx].

Bus fares should also be competitive with the marginal cost of car travel[59], so that buses can fulfil their potential to reduce the environmental, social and economic disbenefits of excessive car use. For example, this might mean setting bus fares so that it is considerably cheaper to take the bus than to drive alone; so that two adults travelling together obtain a worthwhile saving by using the bus; and so that costs of bus or car are roughly equivalent for an efficiently-used car carrying three adults. This implies that bus fares should be pegged to parking charges in urban areas.

**What is the current reality?**

Transport Focus surveys[lxi] show that passengers are markedly less satisfied with the cost of bus travel than they are with other aspects of their journey such as punctuality and journey time. Across the five largest bus operators, less than a third (23-31%) of passengers are very satisfied with the value for money of their bus service, compared to nearly half (38-50%) who are very satisfied with their journey overall.

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[58] This section only considers adult fares. Section 4.2.11 looks at concessionary fares for young people (which would reduce the cost of bus travel by family groups).
[59] Excluding the 'sunk' costs of car purchase, insurance, road tax, etc, but including costs of fuel and parking.

These surveys only cover people who use buses, and do not include those who cannot afford bus fares or consider them unacceptably bad value.

Survey data from marketing pilots of non-bus users confirm that high price is one of the major obstacles to more people using the bus[lxii]. In three cities (Sheffield, Leicester and Manchester), participants returned net negative scores[60] on whether buses were reasonably priced, but gave net positive scores for whether buses were convenient and pleasant to use, and on receptivity to the idea of travelling by bus. When free bus tickets were offered, these people did use the bus.

The high cost of travel was a frequent concern of respondents to the CBT survey, with one person commenting that:

> *"[We need] more affordable buses in rural areas. I went to the Lake District and a 20 minute journey cost £8! My partner and I were the only ones on the bus without a freedom pass - this means younger people may be unable to travel in rural areas due to the cost (which could easily be more than they earn in an hour)."*
>
> [CBT survey]

Bus fares have risen much faster than motoring costs since deregulation. Whereas motoring costs roughly tracked the Retail Prices Index between 1987 and 2014, bus and coach fares increased by 46% relative to the RPI[lxiii].

Outside London, local transport authorities have no statutory powers over bus fares, which are set by commercial operators. Many bus users have few options but to take the bus, and therefore form a captive market (in technical terms, a market that has low elasticity to price). Some companies with local dominance have sought to exploit their market by raising fares. Although this leads to some loss of patronage, in the short term the extra income from remaining passengers more than offsets the loss. However, one of our expert interviewees argued that quite apart from the financial disbenefit to travellers, this strategy is catastrophic for long-term bus use and even liable to be bad for the operator:

> *"In the short term with -0.4 elasticity an incumbent operator can get away with pushing fares up, but in the long term the elasticity will rise [as bus users make adjustments in their lifestyles such as changing workplaces, accommodation, buying cars] and the operator may see their financial performance deteriorate as the whole market shrinks."*
>
> [Expert interviewee]

This mode of behaviour explains a proportion of the price rises and patronage loss after deregulation[lxiv]. Some companies later realised this was a short-sighted approach and somewhat moderated their fares policies. However, the damage had been done. Bus companies that have exploited a long-established bus user culture will find it much harder to win customers back: potential and past bus users that have decided to invest in cars have strong incentives to continue using them.

It has also been argued that the concessionary fare reimbursement system creates an incentive for bus companies to set high fares. Reimbursement is set as a proportion of the average fare forgone, so if the average fare is higher, the reimbursement is greater. This has potential to exert a strong influence in rural areas because of their older demographics, and it was suggested by one of our expert

[60] That is, more people disagreed than agreed that bus travel was reasonably priced.

interviewees that this is one reason why fares are especially high in Wales. The extent of this kind of gaming of the concessionary fare system is hard to assess, but fares in many rural areas are strikingly expensive[61].

Unlike transport authorities elsewhere, Transport for London is able to regulate bus fares, and uses this power as a means to achieve its policy objectives. It has in the past implemented bus fare cuts and freezes, and regarded these as a strong contributing factor for the doubling in London bus use in the decade after it was created (as shown in Section 2.2)[lxv]. It recently reduced the Oystercard PAYG daily fare cap so that the growing number of part-time workers in London paid similar daily rates to a full-time commuter using a 7-day travelcard[lxvi].

Transport authorities are able to exert some influence over the relative costs of bus travel and driving where they own a majority of car parking sites. For example, one of our expert interviewees said that until recently Nottingham had a policy of setting car parking day tickets at about double the bus fare. When it dropped this policy it saw a significant negative impact on bus use. However, this is at best partial control of the relationship between the cost of bus and car travel, and under current governance arrangements there is no single body with control of both sides of the equation.

**How far do current forms of bus governance enable a world-class system?**

- Outside London, local transport authorities cannot put in place fares policies that are supportive of policies to grow bus use, or that support social, economic or environmental policy objectives.
- In contrast, Transport for London is able to determine fares through its franchising system, and to use this power as a means to achieve its policy objectives.

### 4.2.8 Professional passenger-friendly bus company staff

**What would 'world-class' look like?**

Bus drivers don't just drive buses. They are the human contact between a bus company and its passengers. Passengers should be able to rely on drivers for friendly service, provision of information about bus services, and assistance with boarding and alighting if they require it. Drivers should have training on how to support all kinds of disability.

A world-class bus system would recognise that its drivers are its ambassadors to help build and retain custom, and would ensure that they are selected, trained, rewarded and motivated to fulfil that role.

**What is the current reality?**

All bus drivers must meet the legal passenger carrying vehicle (PCV) licence requirements, but beyond that there is a wide variation in the degree to which bus companies ensure that their buses are driven with consideration for passengers and encourage their drivers to provide good customer service. Drivers that feel they are under-valued and badly treated by their employers are likely to struggle to give bus users the impression that they are valuable customers. Some bus drivers do

[61] For example, the return bus fare for the six miles from the author's village to the local market town in mid-Wales is £4.20, an 11-minute bus journey each way. The route is run as a fully commercial service.

succeed in being courteous and well-informed even when under pressure to meet tight schedules. However, in some areas it is common for bus passengers to have a bus pull up ten yards beyond the stop, and then meet a driver who gives the impression that passengers are an inconvenient encumbrance and greets requests for bus information as none of their responsibility[62].

During the decade after deregulation bus drivers saw their pay drop 11% in real terms whilst that of other occupations rose 25% (Section 2.8). Bus driving became a less-valued occupation relative to other jobs. Subsequently, bus driver pay began to rise in line with pay for other occupations, but the gap created in the decade after deregulation has not closed.

As bus driver pay reduced, job security was also lost, working conditions worsened and what had been secure pension arrangements largely vanished[63]. The main bus driver union, Unite, has expressed concerns that 'drivers are working longer hours than they ever have in the past'[lxvii] and that slack bus regulations in Britain have led to a situation where 'bus drivers in the UK are driving for longer periods and over greater distances than their European counterparts'[lxviii]. Bus companies have been so driven to cut costs and undercut competitors that schedules have no room to allow drivers even the legally designated rest break if there is congestion or other delays. One major operator's drivers recently staged a strike because they were finding that timetable changes were 'unachievable', with drivers 'at the wheel for five and a half hours at a time with as little as four minutes recovery time and limited access to toilet facilities'[lxix].

These trends applied to the franchised system in London as well as the rest of the country.

> *"Under the London tendering system, we've seen a race to the bottom. If your route changes hands, the new garage it operates from could be 10 miles away. You'll keep your Terms and Conditions for a bit, until the next bargaining round, but you've almost certainly lost your pension. Most bus drivers in London now don't think it's worth entering whatever pathetic pension scheme they're offered because in 5 years' time they could well be working for a different employer and their pension won't transfer."*
>
> [Expert interviewee]

In some areas the squeeze on wages and conditions affected staff recruitment and retention, with knock-on effects for passengers:

> *"Driving down labour costs has led to a major problem of staff turnover for the private bus companies, with costs of recruitment and retention. Every time you lose a driver, it costs £7000 to put a new driver behind a wheel. The fact that they can't keep their staff means they can't maintain the full complement of staff, so they're missing service, delivery ends up being poor, passengers lose confidence in the service."*
>
> [Expert interviewee]

Some bus operators appreciate that better driver pay and conditions may result in a better service for passengers and better long term business prospects, although the

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[62] An attitude summed up by a badge sported by a driver of a major company's bus used by one of the authors, which proclaimed to passengers 'I've one nerve left and you're getting on it'.
[63] Many bus companies now receive a hidden subsidy because some of their employees' incomes are so low that they receive working tax credit and other benefits.

competitive system may not give them latitude to act on this. Our interviewee from Reading Buses (which is municipally owned) said that over 90% of their 200 trainees during the last four years are still with the company and that they have a waiting list for driver vacancies:

> *"Pay grades and overall packages of benefits are somewhat higher than would be the case in a commercial company. We created a slightly lower cost arm of the operation at one time in order to address staff costs. But we concluded that was rather counterproductive because we weren't necessarily getting the best quality drivers. So we reduced some other running costs which means we can afford to pay our drivers a decent wage and still be competitive."*

[Expert interviewee]

Reading Buses recognise that not having to pay dividends to a shareholder gives them scope to offer better staff pay and conditions whilst retaining a competitive margin[64]. It is also notable that this company values employee input to the extent of having an employee-nominated director on its board.

It might be expected that the social enterprise bus operators would show a similar pattern, but the largest of these, HCT Group, has been criticised for poor staff pay[65] and conditions, with disputes in London[lxx] and in the Channel Islands[lxxi] and accusations of aggressive strike-breaking tactics. It appears that its quest to deliver social value externally has to some degree put pressure on its internal treatment of staff.

While good pay and conditions make it easier to recruit high quality staff, to get high quality customer service good training and management are also needed. In the deregulated environment outside London, transport authorities have little power to achieve this. By contrast, Transport for London insists on certain minimum standards in its contracts. It was sufficiently concerned about driver quality that in 2003 it funded a BTEC qualification[lxxii] which it requires its bus contractors' staff to hold. The course includes customer service, with special attention to older and disabled people[lxxiii]. Transport for London also produces a comprehensive manual for bus drivers, called the Big Red Book. This includes a chapter about serving older and disabled people. There is specific guidance on how to serve passengers with impaired sight or hearing, those accompanied by assistance dogs, wheelchair users, and instructions that drivers should read and respond to written messages in 'travel support cards' that Transport for London have developed for the use of passengers with communications difficulties. The Big Red Book also has a chapter entitled 'More than just a driver' dedicated to ethos of service that Transport for London wants to inculcate. This says it aims to help drivers contribute to the 'essential service for the Capital' that buses provide, with advice on 'how to do more than the basics and provide a professional service to be truly proud of...and show our passengers that every journey they make matters to us.'

Transport for London's training programme sets a good example and recognises that the attitude that bus company staff adopt to their job is critical to the service bus users will receive. However, it is hard to achieve positive staff attitudes where

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[64] It has been argued that ability to retain staff was one reason that Lothian Buses, another municipally owned operator, was able to win the 'bus wars' in Edinburgh, whereas its main competitor, First, could not offer sufficiently good pay and conditions to compete for staff and retain the margin its shareholders demanded.

[65] In 2010 HCT staff were described by Unite as 'the lowest paid bus workers in London' (East London Lines 2010 *Hackney bus services continue despite strike*).

competition has driven down pay and conditions to a point that feels exploitative. The average pay of drivers in London is not far above the living wage threshold[66] and dissatisfaction led to a strike in January 2015[lxxiv] with cancellation of bus services, a severe negative impact on service quality for bus users.

In European countries where bus services are procured via a franchising system, it is recognised that downward competition for lowest wages and poorest conditions is undesirable. So, for example, in Sweden, which has both private and publicly owned bus companies, there are sector-wide national agreements so that companies cannot compete with each other in terms of salaries and social conditions[lxxv]. Similar national agreements apply in other countries, including Austria, France and the Netherlands[lxxvi]. In Germany, many individual states have adopted legislation that requires public tenders for bus services and other sectors to set standards (Tariftreue) for wages and working conditions that operators must meet (and can exceed if they wish)[lxxvii].

In addition to pay and conditions, training and management style, an ethos of public service can be a strong motivating factor. This ethos survives in the deregulated bus system, but it is very patchy across different areas and operators. An ethos of public service is easier to maintain if employees feel that their work is primarily for the public good, rather than for company profit. In theory, municipally owned companies have an advantage in this respect, but since current laws require these companies to operate as commercial entities with an 'arms- length' relationship with councils, it is hard to inculcate the feeling that their staff are working to provide public service rather than corporate profit.

**How far do current forms of bus governance enable a world-class system?**

- Outside London, there is a wide range in standards of staff service to bus users, and deregulation means transport authorities hold little power to secure improvements.
- In some areas where local authorities still own bus companies, these appear able to find sufficient margin, even within the deregulated market, to provide above-average terms and conditions to promote staff loyalty and staff quality.
- Transport for London can insist that minimum training standards form part of all its contracts. However, its short-term contract system pitches corporate profit directly against staff pay and conditions and is inimical to staff loyalty and an ethos of public service.

### 4.2.9 Good quality vehicles and waiting facilities

**What would 'world-class' look like?**

Bus users want buses that are comfortable, clean, quiet, and mechanically reliable, and that don't spew fumes at them. They should be easy to board for people with mobility difficulties.

Automatic on-board announcements and displays of the next stop help all bus users, encourage bus use by people unfamiliar with the local area, and are invaluable to unsighted users. On-board WiFi facilities and charging points enable bus users to

[66] The London Living Wage is £9.15 per hour; bus drivers' wages in London have been reported to be £10.18 per hour on average, meaning that some drivers' contracts barely exceed Living Wage, if at all (Guardian 2015 *London's bus drivers deserve a better deal*).

use the journey time to achieve tasks they could not if they were to make the trip by car.

Waiting facilities should, at a minimum, provide seating and shelter from wet weather. They should be designed for use by people with disabilities and should make it easy for them to board buses. All significant bus interchanges should provide warmth and toilet facilities. Large bus interchanges should aspire to achieve the atmosphere more often associated with railway stations, providing refreshment facilities and other convenience retailing.

In rural and low-density suburban areas a world-class system would recognise that the 'catchment' for bus routes may be enlarged if passengers can conveniently access bus stops by bicycle. Countries like Austria equip some stops with extra-large shelters, with a portion designed for bicycle storage segregated from the passenger waiting section.

**What is the current reality?**

For a decade after deregulation the bus stock became older. Before deregulation, just 15% of all buses on the road were more than 12 years old; by 1996, this had risen to 40% (Section 2.7). The marketised system failed to respond to the interests of bus users. This happened because, much as passengers prefer comfortable vehicles, the comfort benefit from a better bus is not sufficient for most customers to pass up the first vehicle to arrive and bear the greater discomfort of standing in the wet and cold to wait for the bus of another operator. So a budget operator who challenged an incumbent operator on a commercially attractive route could get a good proportion of the trade even by running ancient buses[67]. Bus companies are aware that investment in new buses helps bring in more customers, but they also know that they risk being unable to recoup their investment in new buses on routes vulnerable to incursion by a competitor.

Regulation at the UK and EU level regarding disabled access and vehicle emissions has to some degree removed scope for use of very old buses. Some bus operators now feel more security to invest where initial on-road competition has been seen off and local dominance strongly established by a particular operator. This led to a fall in the average age of the bus fleet from the mid-1990s. More recently, Stagecoach and Arriva felt able to invest in 'Gold' and 'Sapphire' routes, to exploit the market opportunity from providing better buses on prime routes linking popular destinations. Nevertheless, there persists an underlying disincentive to invest, because competitors may come in with older buses to exploit patronage built up by an incumbent's investment in better vehicles.

Buses in London are significantly younger than buses elsewhere (on average, by about two years compared with English metropolitan areas, and by more compared with other areas). This difference results from the power that the franchising system gives Transport for London to specify conditions of tender that include quality standards such as bus age.

Outside London, local authorities have powers to specify vehicle quality for tendered services, although in practice budget constraints limit their ability to do this and some may be reluctant to apply strictures that could exclude small local operators.

[67] In Reading, for example, a former employee of Reading Buses set up a rival company running old Routemasters, and successfully cherry-picked some prime routes for several years, with severe consequences for the profitability of the city's main operator.

Strathclyde Partnership for Transport has decided that the most effective course is to buy buses themselves, for operators to use on tendered contracts on the basis of maintenance-only leases, but this is beyond the capacity of most local transport authorities[lxxviii].

For commercially profitable routes, the decision on what buses to use is made by the operator. Many of our expert interviewees remarked that bus operators are highly risk averse in the present system and that expenditure on new vehicles, or extra vehicles to increase service frequency, is seen as risky. Transport authorities that wish to see an increase in bus use have therefore worked in various ways to improve the quality and size of the vehicle stock, although all these approaches have difficulties:

- Most commonly, local transport authorities have sought voluntary agreements with operators whereby the council invests in infrastructure such as bus priority measures or new interchange and waiting facilities, and the operator invests in new stock. However, voluntary partnership agreements cannot prevent another operator entering the market and using new facilities with older inferior buses, possibly destroying the viability of the service provided with new buses.

- Some authorities, like Nottingham[lxxix], have taken legal steps to create Statutory Quality Partnerships, so that they can specify minimum standards for the vehicles that use upgraded facilities. Other aspects of service quality such as vehicle cleanliness and maintenance may also be specified. However, operators have resisted being bound into statutory schemes, so the process of achieving them has proved conflictual and resource-intensive.

- Some authorities have indirectly covered the cost of buying new vehicles through 'kick-start' funding to increase service frequency on routes with potential for patronage growth. A number of these schemes have achieved commercial viability at a higher service frequency operated with new buses[lxxx]. However, operators' concerns about commercial confidentiality mean that local authorities are largely blind to operators' costs, and do not know how much of the public funding will be extracted by the operator as profit. Agreements never include a claw-back facility in case of unexpectedly high profit. This lack of transparency led one of our expert interviewees to describe the schemes as 'more like kick-back than kick-start'.

Local transport authorities that wish to fund major upgrades to bus waiting facilities need to know what level of use these will have in order to design them appropriately; want to be assured that use by different operators will be coordinated so that capacity is used efficiently; and want to make sure that they will not be polluted by dirty and noisy vehicles. All these things require regulatory powers, at a level of Statutory Quality Partnerships or greater. In practice most local authorities have not been willing to tackle the obstacles to statutory partnerships, which, in addition to the necessary administrative and legal steps, include facing down operators at the expense of past effort invested in building up relationships to facilitate voluntary partnership working.

**How far do current forms of bus governance enable a world-class system?**

- Outside London, the threat of low quality competition deters bus companies from investment in vehicles and deters local authorities from investment in new passenger facilities. Statutory Quality Partnerships partly resolve some issues but are cumbersome.

- In London, TfL can specify vehicle quality within its contracts, and its regulatory powers prevent non-contracted bus operators from using facilities it provides.

## 4.2.10 Efficient and accountable use of public money that supports bus services

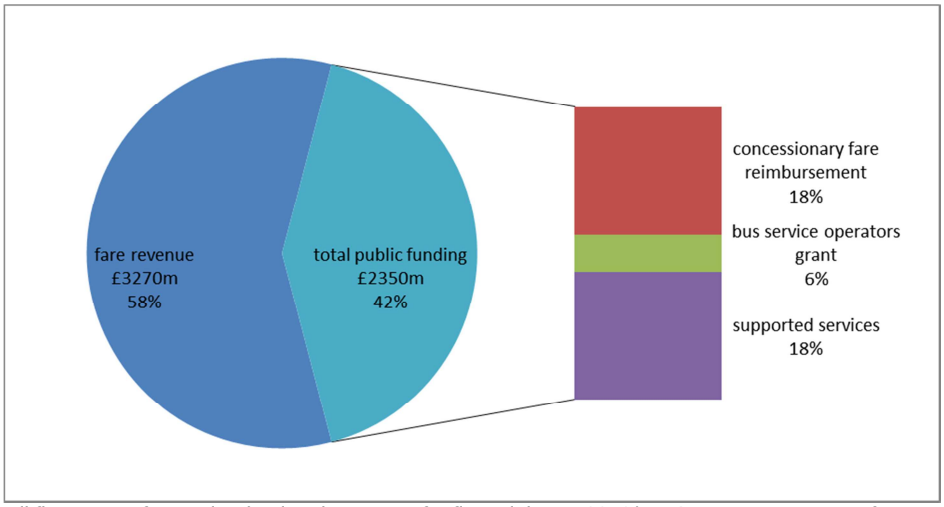
### What would 'world-class' look like?

Bus users and taxpayers should be confident that public funds are being efficiently used to get the best bus service achievable for the money. Support for buses will, under any governance structure, require judgements about which routes, times of day, and days of service, are most important, and must also balance the comparative merits of revenue and capital funding[68]. These decisions should be made with the involvement and participation of local communities, and in a transparent way, so that local communities can see how money is spent.

### What is the current reality?

Figure 4.2 shows sources of public funding for bus services[69]. In 2013/14, public revenue funding amounted to £2.4 billion, accounting for 42% of bus operator income[70]. Less than half of public funding (£1 billion for supported services) is provided in ways that specify the services operators must run in order to receive it.

**Figure 4.2: Types of public expenditure on bus services and total bus operator income**




All figures are for England only. Figures are for financial year 2013/14. Source: Department for Transport 2014 *Annual bus statistics England 2013/14*

Most of the public funding (£1.3 billion, BSOG and concessionary fare reimbursement) allows operators to use it to run whatever services they believe will be most profitable. There is no effective public accountability for this expenditure.

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[68] Both of which are needed. See Transport for Quality of Life 2015 *Finding the optimum: revenue/capital investment balance for sustainable travel*.

[69] There is additional local authority expenditure on capital schemes to improve bus infrastructure (e.g. bus lanes, bus priority traffic signals, real time passenger information, bus shelters and interchanges) funded through the integrated transport block grant and local major transport scheme funding. There is further capital and revenue expenditure on buses, funded via competitive grant programmes such as the Local Sustainable Transport Fund, Better Bus Areas and the Green Bus Fund. There is no central estimate of the total value of this expenditure on buses, which is likely to amount to some hundreds of millions of pounds per year. Although local authorities have some ability to encourage bus companies to improve their services where there are capital improvements (e.g. using Voluntary or Statutory Partnership Schemes) they cannot ensure that use is optimised or is not discontinued in response to changes to the commercial network.

[70] There is additionally substantial public capital investment in bus stations, bus stops, real-time information displays, etc.

Bus services that are termed ‘commercial’ are in fact supported to a large degree by this public money, yet if the operator wishes to change or remove these services they are under no legal duty to consult users, local residents or the local transport authority.

Inefficiencies with public funding arise in three respects under the deregulated system:

- **Funding cannot be deployed strategically**. Local authorities cannot plan and fund the network as a whole, and their support for tendered services tends to be in ‘reactive’ mode, dealing with whatever is left after a bus operator has cherry-picked particularly profitable route sections and parts of the timetable. It is also impossible to maximise the value for money of capital investment. For example, if demand on a major bus corridor is sufficient to justify replacement with a tram, it is desirable to recoup the capital investment through fare revenues on the tram without parallel competition from buses. However, the deregulated system prohibits such limits on bus competition.

- **Companies can play the system to their advantage.** Several expert interviewees raised concerns about operators gaming the system of tendered services. Examples included operators appearing to take a calculated view that if they withdrew a service they considered insufficiently profitable, the council would come under pressure to re-create a similar route using public subsidy, and they would be in a strong position to make the cheapest bid to win the tender and then operate the route with increased profits. Operators who adopted this tactic but did not win the tender sometimes put their buses back on the route and ran against the subsidised service, proving that the initial route was in fact profitable.

- **Dividends for bus company shareholders leak from the bus system**. Dividends to shareholders can be significant in relation to the amount of public money used to support the bus network (Section 3.4). The picture varies with profit levels in different locations and firms, but in some areas such as Tyne and Wear it is evident that capturing just a portion of bus company profits would make a considerable difference to the ability of the authority to sustain its financing of the bus network.

Lack of accountability for how public money is spent is also an issue. Commercial companies are ultimately only accountable to their shareholders. Bus companies regard their operating costs and fare revenues as commercially confidential, and local authorities have no access to company data that would enable them to make decisions about the bus network. Likewise, local people and their elected representatives are unable to assess the value for money their investment is achieving, and cannot hold service deliverers to account.

In London, efficiency of public investment appears to be better than elsewhere. In part, this may be because of the greater opportunities for TfL to act in a strategic way. In addition, as we saw in Section 3.2, profit levels (and therefore dividend leakage) in London are generally lower than in other areas. Table 4.2 shows that when the level of support is considered as a proportion of the total turnover of bus operations, the London system is at the same level as English metropolitan areas and below non-metropolitan areas. When viewed in terms of support per passenger trip, London appears considerably more economical than other areas.

**Table 4.2: Comparative effectiveness of public money in support of buses between types of area**

| | Public funds as a proportion of total bus revenue[lxxxi] (%) | Public funds per passenger journey[lxxxii] (pence) |
|---|---|---|
| London | 40% | 35 |
| English metropolitan areas with PTEs | 40% | 51 |
| All other areas in England | 45% | 66 |

Notes: 1) Public support comprises BSOG, concessionary travel reimbursement, direct support for bus services; 2) Public funds are apportioned across all passenger trips, not just those on directly subsidised services; 3) All figures refer to financial year 2013/14.

**How far do current forms of bus governance enable a world-class system?**

- London's franchising system enables a strategic deployment of public monies for buses that is not possible in deregulated areas, cuts out gaming of the tendering system, and reduces a proportion of dividend leakage.
- Where local authorities outside London own bus companies, dividend leakage can be avoided on the portion of the network operated by the municipal company. However, these local authorities cannot guarantee that this financial benefit will be continued in the future, because their municipal operations are exposed to commercial rivals, some with considerable financial capacity to launch incursions.

### 4.2.11 Free bus travel for older people and young people without undue additional expense

**What would 'world-class' look like?**

A public transport system that aspires to be world-class should find an affordable way to carry old people, young people and disabled people for free.

60% of women and 20% of men in their seventies do not have driving licences[lxxxiii], and even for older people who can drive it may become unpleasant, difficult or impossible as they age. Buses are a lifeline to facilities and companionship for this portion of the population, many of whom are on restricted incomes.

Young people are also heavily dependent on buses for access to education, training and employment, not only whilst below driving age but also for a period thereafter when the costs of insurance and a vehicle may be very high but their income is low.

Taking a wider view, there are multiple benefits from encouraging a public transport habit in young people. People who learn to drive later (in their late twenties) drive 30% less that those who learn to drive early (in their late teens), throughout the rest of their lives[lxxxiv]. Casualty statistics show that young drivers account for double the average rate of crashes causing death or serious injury, and that crash rates for first-year drivers fall sharply (33%) if learning is delayed from 17-19 to over 25[lxxxv]. Delaying the age of driving therefore leads to reduced congestion (an economic benefit), fewer crashes (a social and economic benefit) and less traffic (an environmental and social benefit). Pilot studies investigating how to influence young people to delay learning to drive identify cheaper fares as an important influencing factor[lxxxvi].

**What is the current reality?**

Free travel for older people and disabled people[lxxxvii] is one respect in which Britain's bus system can be regarded as world-leading. The Greater London Council introduced its pioneering free London-wide 'Freedom Pass' in 1973[lxxxviii]. Nationwide free bus travel for elderly and disabled people was introduced by statute to Wales in 2002, then to England and Scotland[lxxxix] in 2006[71].

Free travel for young people is *not* statutory and local transport authorities vary widely in the discretionary fare reductions they make available. In London young people can travel free on buses until age 18 if they stay in education. Outside London only 26 local transport authorities offer young people concessionary bus fares[xc], and these are generally not free. Scotland and Wales[xci] have legislated for statutory 33% discounts on buses for all 16 to 18 year olds. If local transport authorities wish to extend discretionary fare support to those in higher age brackets (e.g. Transport for London assists students aged 18-21 with 30% reductions[xcii]) the legal basis for them to do so is presently unclear[xciii].

In recent years aspirations to expand concessionary fares have been suppressed by cuts to public finances and debate has focused on whether concessionary fares offer good value and should be cut back or means tested. Because, as noted above, buses are crucially important to old and young people there is great concern that such cuts could have severe impacts.

Aside from the social impacts, there is evidence that cuts to concessions would be counterproductive even in economic terms, resulting in higher costs to society in the long term. A cost-benefit analysis of the concessionary fare scheme for older and disabled people in Britain[xciv] calculated that benefits amount to more than public expenditure on the scheme, returning a BCR (benefit/cost ratio) of about 1. 2 (excluding any benefits to bus operators)[72]. The benefits are, in descending order of magnitude:

- Saved healthcare costs from health benefits to older people walking to catch buses
- Benefits for other bus users from service enhancements driven by the extra demand resulting from free concessionary fares
- Value of additional voluntary work undertaken by older people as a result of free bus travel
- Decongestion benefits from car trips avoided
- Savings from car crashes avoided
- Benefits from reduced pollution from cars

[71] From 2002 Scottish local authorities offered free bus travel in their areas. The national schemes vary in what they offer: Wales, Scotland and London have an age threshold of 60, whereas England outside London sets an older age threshold at pensionable age. The Scotland scheme also extends to most long distance coach services. London's 'Freedom Pass' extends to the Underground, Docklands Light Railway, trams, Overground and other rail services (off peak).

[72] The study calculated that £2.87 in benefits arises from each £1 spent, if the value of the free tickets issued to concessionary pass holders was considered part of the benefit. Although this approach might be logical from some perspectives, this appears to represent transferred spend rather than an additional benefit to the overall economy. Such an approach would automatically return a BCR above one for any scheme where the public purse bore the cost of an otherwise paid-for service.

An in-depth analysis[xcv] of a bus route in Kent[73] using Department for Transport standard economic appraisal methodology (WebTAG) also found that pensioner free travel can show a BCR>1, considering only health, congestion and accident benefits[74], if it is assumed that the average walk to the bus stop takes three minutes or more, which seems likely for this age group. The same analysis found that Kent's policy of providing reduced price bus passes for children age 11-16 delivered a BCR>1 under most input assumptions.

Despite this evidence, expenditure on concessionary fares has become contentious. A key reason is the way public authorities have to reimburse commercial operators to carry passengers entitled to concessionary travel. Bus company reimbursement involves a complex set of procedures, requiring a 133-page Department for Transport manual[xcvi], which in England alone gave rise to 170 appeals from bus operators in the first two years of operation[xcvii]. Every local authority in England is required to work out its own reimbursement rate for operators, whereas Wales and Scotland calculate a single national reimbursement rate.

As commercial enterprises, bus companies have seized the opportunity to alter their networks to grow income and profit on the basis of the subsidy provided by concessionary fare reimbursement. The resulting services are valuable to those who use them and some of them may be highly deserving of subsidy. However, without powers to direct the level or location of these 'commercial' services, local authorities have found themselves paying out increasing reimbursement without means to control the total bill or to ensure that the network of services on offer is the most socially valuable network to receive subsidy.

How has this happened when, in theory, the reimbursement system is supposed to ensure that bus companies are 'no better and no worse off' than they would be without the concessionary scheme? Reimbursement is calculated as two parts: revenue forgone and net additional costs. 'Revenue forgone' is for passengers who would have travelled anyway without the scheme, and 'net additional costs' are for accommodating the added demand created by extra passengers[75]. Both calculations are relative to what would have happened without the concessionary scheme, but as the DfT guidance manual notes, 'it is not possible to observe this directly and [it] needs to be estimated'. The estimation process is complicated and laborious, but flawed.

The reimbursement process considers the consumer response[76] to free travel at length, but it omits an important part of the provider response. Consideration is given to the response of bus service providers in so far as additional passengers may cause them to incur added costs for fuel, or to run some services more frequently, or to add some extra vehicles to services. But the methodology fails to consider that the reimbursement opens new opportunities for commercial operators, who may start new routes they realise will now be profitable. The reimbursement methodology factors in a profit margin[xcviii] for operators, so if they expand the market, they will become 'better off'. Reimbursement factors are area-wide, not route-specific, so

[73] The 'Triangle' route that Stagecoach operate as a complete circuit in both directions around the loop Canterbury-Herne Bay-Whitstable-Canterbury.
[74] That is, without counting the saved cost to the concessionary travellers themselves, or the benefits to other bus users from higher service levels generated, or the value of older people's voluntary work.
[75] With an additional allowance for costs of administering the concessionary scheme.
[76] Passenger demand-price elasticities are a key part of the model, and have been one area of dispute between bus operators and reimbursing authorities.

operators get reimbursed for free travel on new routes that is additional, as if it were revenue forgone. One academic analysis[xcix] cites an example from Scotland:

> *"Since the introduction of the free concession an operator has introduced an entirely new service from the southwestern part of the Glasgow conurbation to the nearby national park at Loch Lomond. Since this direct service did not exist prior to the free concession, it is highly probable that the vast majority of the trips now made are generated. Nonetheless, the operator is reimbursed for 73% of a notional adult fare [the Scotland-wide reimbursement rate] for every concession passenger carried, and without such public funding the service would not run."*

The Scottish Government has assessed whether the current reimbursement scheme, introduced when free travel became national in 2006, appears to provide more profit to operators than the free travel schemes that had been administered by Scottish local authorities from 2002. Its figures[c] showed that between 2005/6 and 2007/8 reimbursement had risen 45% but free concessionary trips had risen just 8%. It concluded that:

> *"The disparity between the increase in concessionary travel and operator reimbursement since 2006 could suggest that operators are 'better off' than they were prior to the national scheme".* [ci]

It is not clear how much this outcome resulted from inherent over-generosity in the calculation methodology and how much resulted from operators changing services to achieve more income.

A further problem of the reimbursement system, as noted in Section 4.2.7, is that there is an incentive for operators to inflate fares to get more reimbursement.

Concessionary youth fares have also come under pressure. Here too, some of the problem appears to arise from offering an across-the-board reimbursement rate to commercial operators that is not sufficiently related to whether additional capacity really is being provided[77].

By contrast, in London where services have remained regulated, carrying concessionary passengers freely is simply part of the contracts for which bus companies tender. Gaming of the concessionary system (e.g. by setting high fares to claim high reimbursement) or windfall profits from it are eliminated automatically. Concessions are incorporated as part of the basic contractual arrangement. If a route attracts so many concessions that the contract must cover additional services there is an additional cost, but for routes where there is sufficient capacity to carry concessions without strain additional costs are minimal or zero.

In theory it might be expected that a local transport authority that owns a local bus company could achieve similar efficiencies, but present rules mean that councils must reimburse operators that they own in the same way as any other commercial operator.

**How far do current forms of bus governance enable a world-class system?**

- Deregulation outside London makes concessionary fare provision an administrative and legal nightmare that can be exploited by operators.

[77] The price of the young person's travel pass in Kent, for example, will rise to £250 for 2015-16 academic year, compared with £50 when initially rolled out county-wide in 2009. Reimbursement to commercial operators is proving costly for the council who are responding by downgrading the level of concession.

- Bus companies owned by transport authorities are prevented by law from offering their owners the full efficiencies ownership could offer in respect to concessionary fares.
- Franchised bus services in London can build concessions into the contract price.

### 4.2.12 All road passenger transport funded and governed together

**What would 'world-class' look like?**

Cost-effective governance of buses can only be achieved if the local transport authorities have appropriate scope. Three issues are critical:

- funding all types of road passenger transport via a single authority
- governance of all types of road public transport by a single authority
- geographical scale of local transport governance that matches transport networks

Some European countries have gained significant efficiencies by combining funding and responsibilities for all different types of users of road public transport. For example the Netherlands Regio taxi demand-responsive services originated from combination of budgets and responsibilities for health-care transport, transport for disabled people, and social services transport[cii]. The services were then opened to use by the general public as part of the public transport system. In the UK this approach has been termed 'total transport', meaning that scheduled bus routes should be considered in conjunction with buses that carry students to school and with demand-responsive transport for people or places that need more tailored transport. Some universities, private schools and employers also run bus services for their students and staff, and where these organisations can be drawn into the total transport approach there can be further efficiencies for all parties.

Considering the scale of bus governance, it is notable that in continental Europe buses commonly form part of a regional or sub-regional[78] approach to public transport. This approach enables transport networks, including buses, to be coherently designed and financially supported for travel to work areas or other logical transport boundaries which span beyond individual local authorities.

**What is the current reality?**

In Britain there is a confused picture of partial devolution of bus funding and partial formation of regional structures with bus responsibilities.

Bus Service Operators' Grant is disbursed centrally in Scotland and most of England, but with devolution of BSOG to some areas in England as part of Better Bus Area schemes. Wales initially rolled BSOG into a Regional Transport Services Grant that covered both buses and community transport[79] and was disbursed via four regional transport consortia, made up of local authorities in each Welsh region. These were responsible for administering the grant and for developing a transport strategy that covered each region's bus services and community transport services.

[78] The size and definition of 'region' varies. The relevant fact is that the level of governance of buses is generally larger than a single local authority. For example, German Verkehrsverbunden, associations of transport authorities and operators, span whole city-regions and large portions of some German states, but are much smaller than Germany's official regions.
[79] Although with a proportion of the fund ring-fenced for community transport.

However, the local authorities retained governance of bus services and the regional transport consortia now appear to have lost most of their capacity and functions alongside a re-evaluation of local authority boundaries in Wales. Transport planning has reverted to local authorities. Local authorities retain an option to work together to produce joint transport plans but there is no longer any fixed or agreed notion of a 'region' for transport purposes[ciii]. The Regional Transport Services Grant was replaced in April 2014 with a Bus Services Support Grant, allocated directly to local authorities[civ].

Although funding streams for health and community transport are generally separated from bus budgets, in England there is an ongoing £7.6 million pilot scheme for total transport[cv]. Some local authorities, driven by budget constraints, had already taken steps down this route. Nottingham City Council has succeeded in combining its tendering for subsidised bus routes with specialist services:

> *"We have gone across the whole of Nottingham's bussing market – schools, colleges, health services, universities, major employers - and found bespoke ways of integrating those so that both of us [the council transport department and the other provider] have saved money. We have got rid of every specialist route."*
>
> [Expert interviewee]

Nottingham identifies a further £3.5 million of taxi contracts of which it estimates about one quarter could be moved onto the mainstream bus network if the present institutional and attitudinal barriers to doing that were removed.

These total transport efficiency gains are significant, but to achieve the greatest possible gains, it is necessary for the transport authority to be able to shape the entire bus network, not just the small fraction of it that is tendered. The cost inefficiencies of tendering just the portions of the bus network left over after commercial operators have had their pick was discussed in Section 2.2.10. Similarly, achieving efficiencies from combining the coverage of mainstream scheduled services, specialist scheduled services and demand-responsive services is limited where most of the main bus network is beyond control due to deregulation.

It is also important that a total transport approach is not simply treated as a route to implement cuts and downgrade services. Demand-responsive transport (DRT) may make most sense in some instances but scheduled bus routes are the most cost-effective solution in other situations and may be preferred by bus users:

> *"A well run fixed route service has the merit you don't need to prebook every trip – you can decide how long you are going to stay in the market town in real time if there is an hourly bus service (you don't have to preplan it). In our student surveys people said they'd rather have a fixed route service 5 times per day rather than a DRT circulating 10 hours a day which in theory is more convenient."*
>
> [Expert interviewee]

Where DRT solutions are appropriate, it is presently difficult to achieve the best amalgam of bus and taxi operations because taxi licensing is at district level, and for many areas is not in the hands of the local transport authority.

The geographical scale of bus governance is itself a mixed picture. London and the English metropolitan PTE areas form sub-regional areas that correspond reasonably

well with logical bus network boundaries. Otherwise bus services in England are governed at local authority level, only some of which form the most logical boundaries for bus governance. At many local authority boundaries bus users experience unhelpful discontinuities in network continuity[80] and ticketing, and major disparities in levels of service provision. The current move towards combined authorities in England may create more helpful boundaries, with a number of the PTE areas acquiring a city-region style[81]. However, the present process is *ad hoc.*

The Welsh decision to define regions for transport purposes had some merit:

> *"Wales did have a fairly sensible system with regional groupings like SEWTA [South East Wales Transport Alliance]. In SE Wales a lot of the unitary authorities are small and a lot of the bus operations will cross boundaries."*
>
> [Expert interviewee]

However, the Welsh local authorities never relinquished their bus governance responsibilities and the regional transport consortia now appear to be largely defunct. The Welsh Government has retained its hands-on role for the TrawsCymru network of longer strategic bus routes, acting as a regional transport authority in that regard[82]. It has, however, experienced problems under the deregulated bus governance system designing the most logical network across Wales, with a decision by Arriva to run a commercial service in 2012 undermining the business case for one of the routes, causing six buses specially purchased with public funds to be put into storage[cvi].

Scotland has also defined regions for transport purposes, but stopped short of transferring local authorities' transport powers to them. Where the Regional Transport Partnerships correspond to single large rural authorities (Shetland, Dumfries and Galloway) or former PTE areas (Strathclyde) they have taken on full transport governance powers[cvii]. In other areas of Scotland the role of the Regional Transport Partnerships is limited to preparing strategies for regional transport and coordinating the local authorities who have the powers required to implement it.

A wider issue is that for fully integrated transport, governance of local rail services[83] should mesh with governance for buses. This requirement supports a regionalised approach to governance of all types of local public transport services. London and

[80] One of our expert interviewees has compiled an extensive list of 'missing links' and simple network changes that would solve them. A typical example is bus services from Hexham in Northumberland and Bishop Aukland in County Durham that terminate within a few miles of one another at villages on different sides of the county boundary. A short route extension and a coordinated timetable could provide the opportunity for through-travel by bus between the two towns and improve bus travel from villages in between.

[81] Nottingham and Derby plan to do likewise through combination with their surrounding counties.

[82] Although it is a distinct nation, Wales acts as a region of Britain for railway purposes. The Welsh Government is the transport authority for rail franchising across Wales, so this strategic planning of the TrawsCymru bus network is an appropriate combination of roles since it is complementary to the rail network. However, Wales as a whole is larger than even the biggest German Verkehrsverbunden, and appears big as a 'region' for the purpose of local bus services. The coastal conurbations and the valleys of south Wales naturally form city-region relationships within Wales, but mid Wales and north Wales have stronger transport links to Birmingham, Manchester and Liverpool and form less coherent transport regions.

[83] Local rail service governance must also mesh with governance of the nationwide railway. Transport for Quality of Life 2013 *Options for Regional Rail* considered how regional governance of local rail service can be achieved whilst retaining a whole-network approach to the railway nationally.

one of the PTE areas[84] have taken powers over some rail services and have advanced the case for taking this further[cviii].

**How far do current forms of bus governance enable a world-class system?**

- The present governance arrangements outside London preclude a total transport approach: the core network of bus services is outside the control of the local transport authority.
- Bus governance areas are a mish-mash. Only some have a good fit with travel-to-work areas and economic areas. Many are too small to be the best bus governance solution.

### 4.2.13 Bus network purposely designed to achieve maximum public benefit

**What would 'world-class' look like?**

A world-class bus network must be designed to provide the maximum benefit to the citizens of the town or region it serves, both as the best possible network for the available public funding and as the best network to support the local economy and enhance the way towns and cities feel.

To ensure that the design and operation of the bus network served travellers as well as possible, bus governance arrangements would draw on the experience of bus users, particularly including disabled travellers.

**What is the current reality?**

The rationale behind deregulation was that maximum public benefit would be an automatic outcome of bus companies seeking maximum benefit for themselves. Some bus companies have shown a strong focus on what passengers want, taking steps to improve vehicle stock and add facilities such as on-board WiFi in recent years. However, as already discussed in Section 2.2.1, competition between multiple operators militates against any of those operators putting in place a full network that operates as a whole, and even where a single operator is dominant, pressure to maximise profit on a route-by-route basis tends to lead to truncated routes, reduced-hours timetables and connection failures that render the bus networks severely suboptimal from the perspective of the bus user.

One of our expert interviewees pointed to instances where competition itself has been the priority, regardless of whether it benefited the public or produced the best network that could be achieved with the available resources:

> *"There has been an emphasis on competition for its own sake rather than as a means to an end. Common sense coordination of services is made more difficult by that. First Group in Scotland had to give an undertaking that they would not cut back some of their buses in the Glasgow area because they run parallel to the trains [which First were bidding to take over]. That is an example of competition policy being pursued for its own sake, with perverse effects."*
>
> [Expert interviewee]

[84] Merseyside.

Another expert interviewee argued that the current deregulated system made it far more difficult for local authorities to implement policies to enhance the overall 'feel' of towns and cities, especially on roads with limited capacity:

> *"Much of Cambridge's historic centre is closed to through traffic including buses. So the roads that do carry buses get congested. This has led to dispersal of city centre stops, which inconveniences people changing buses. Almost all buses terminate in the central area, [and] the turning manoeuvres contribute to congestion. Which means that buses are delayed, meaning longer waits for passengers. There is absolutely no way in which these problems can be tackled within the current system."*
>
> [Expert interviewee]

Even where municipal operators exist, they have to operate so as to survive commercially, whether or not that provides the best network for the public. An additional obstacle is that local authorities are limited in the influence they can exert over the companies they own as a result of the detached corporate management structures adopted to comply with deregulation legislation.

The present involvement of bus users is patchy and lacks statutory backing. Bus operators run occasional bus 'surgeries' in some areas and local authorities run consultations from time to time, particularly when they are planning cuts to bus services. However, there is no duty on bus operators to consult about service changes or take bus users views into account. Bus users who try to get involved in the transport planning processes of local transport authorities are discouraged by the lack of control that public officers can exert over bus services and there is a general absence of official structures to incorporate bus users' experience into the network planning processes that do exist[85].

**How far do current forms of bus governance enable a world-class system?**

- The deregulated system outside London does not allow bus networks to be purposely designed to maximise public benefit. The lack of regulatory powers for local transport authorities also disempowers members of the public whose experience could contribute to improvement of the bus system.
- Where municipally owned bus companies exist, some of their owning local authorities succeed in influencing network design, but they are limited by their companies being unable to plan without threat of commercial incursion and by deregulatory legislation that militates against local authorities requiring their municipal companies to operate to wider objectives than profit alone.
- The bus franchising system in London does enable the transport authority to purposely design the bus network with public benefit as its prime purpose.

### 4.2.14 One-area-one-network-one-brand

**What would 'world-class' look like?**

The world's best unified public transport networks make it part of their civic image, adopting a 'one-area-one-network-one-brand' approach. Their starting point is the

[85] Transport for London does have board level representation of disabled travellers, as noted in section 5.5.5.

idea that their public transport system should operate as a whole, with its constituent parts fitting together across the entire area, so that travellers can hardly 'see the joins' and can transfer between buses or to other modes with ease, without re-ticketing or searching for separate information. These transport authorities then boost patronage and fare income by marketing the whole system under a single brand, enhancing the economic viability of the system and thereby benefiting its users. At a higher level the transport brand becomes an asset to the area that can help attract new businesses or develop a visitor economy.

**What is the current reality?**

London's red buses stand out as a world-famous example of a 'one-area-one-network-one-brand' approach and are part of a strong Transport for London branding[86]. Some other municipal authorities do have a vision for a similarly unified system but have insufficient powers to achieve it.

Reading Buses[87] and Brighton and Hove Buses are good examples where a public and a private sector operators have adopted a branding that strongly associates the bus network with the town, but most other towns and cities have no sense that the services are part of a 'city brand'. It is significant that in both of these examples, a single operator predominates. Although they cannot control other operators' operations they have taken a far-sighted view and attempted to provide a 'guiding mind' that considers their local networks as a whole.

Many areas lack even the vision for a unified public transport system, let alone achieving such a system in practice. Commercial pressures in the present system tend to work in the other direction, with operators adopting separate brands that make the system appear bitty and sensible operational cooperation between operators is largely prohibited due to competition law.

> *"With deregulation you lose the idea of a simple network and the idea of one network, one brand that reflects your city, not a big corporation. You lose the intelligibility of the system. The overall offer that London demonstrates in spades, where you know what you are getting."*
>
> [Expert interviewee]

Although it might seem obvious that a unified public transport system is fundamentally important and desirable, it was not a premise of deregulation. To the contrary, deregulation of buses was designed to break up previously unified networks to sell them to competing operators.

**How far do current forms of bus governance enable a world-class system?**

- Only London, through its franchising powers for buses, can assert a vision that buses form part of a unified transport network with operational integrity and market the whole-network advantages under a single unifying brand.

[86] Arguably London Transport was an even stronger branding, with its red theme extending to the underground as well as the buses, and in recent years TfL has sacrificed its brand benefit for financial gains, allowing advertisers to fully wrap buses with their own brand and sponsors to brand its cycle hire scheme.

[87] Reading Buses also show that achieving a single unifying brand is not necessarily about painting all the buses the same colour. It has a consistent design that is part of its overall brand, whilst colour-coding routes or groups of routes so that these are distinguished for users and can be promoted to the areas they serve. Nottingham City Transport takes a similar approach.

### 4.2.15 Regeneration and development centred on enhancement of the public transport network

**What would 'world-class' look like?**

The most fundamental determinant of transport patterns is land use planning. In a world-class system, new development would be in locations and in forms that reduced the need for car use and were easy to access by public transport (and walking and cycling) [cix]. All major new development would be centred on high quality public transport. Public transport would be fully operative before the site was occupied, so that residents and workers had non-car options from the outset and car-dependent travel patterns did not develop.

In city centres where space is limited, public transport would be planned to create a high quality public realm, so as to attract businesses, shops and visitors. Private vehicles and their impacts could be reduced or removed entirely where public transport access was sufficient, and the public transport vehicles themselves would be quiet and clean, so that users of the city centre could enjoy its facilities free from air and noise pollution. Buses and trams would function as a single network.

These outcomes require combined public governance of land-use planning and transport. Stockholm's approach to the Hammarby Sjostad development is a good example. The municipality set ambitious objectives from the outset to minimise the proportion of trips made by car, and had both the powers and the capacity to oversee the masterplanning process to ensure that it would deliver the target[cx]. Its target for non-car mode share was 80%, and when last reported it had achieved 79%, of which 52% was public transport[88].

**What is the current reality?**

Several issues are apparent:

- It is not possible to ensure a high level of bus provision will be provided, so it is not possible to design developments to rely on bus transport.
- Conversely, it is not possible to restrict bus competition or specify routes to complement other public transport, so it is also not possible to provide rail or tram transport cost-effectively.
- The unknown level of potential bus operation makes it impossible to predict and efficiently provide infrastructure for buses to use a new development or a city centre.
- In city centres where space is limited, lack of control over bus congestion precludes improvements to the public realm.
- City centres are liable to be degraded by air and noise pollution from buses when the routing, quality and numbers of buses cannot be controlled.

It is very difficult to mesh development planning with a deregulated bus system. A planning authority cannot guarantee that a new development will be served by private bus operators. Allocating space in the plan and investing to install facilities such as bus stations, layover areas and bus priority measures therefore becomes a

[88] Hammarby Sjostad is served by a tram line, buses and ferries.

highly uncertain process. An authority cannot guarantee that the facilities will receive a particular level of service and allocate capacity accordingly.

One expert interviewee working for a transport authority identified a series of major developments in his area that had failed to incorporate bus priority:

> *"The main reasons behind these failures are:*
>
> *a) Inability to specify the level or quality of the bus option. We don't know what the commercial market will deliver.*
>
> *b) Inability to determine and fund quality infrastructure (or vehicles) as part of the development. Developers see 'buses' now as something that is provided commercially after the development has taken place.*
>
> *c) Inability to insist that developers design-in and fund potential future bus access.*
>
> *d) Inability to tie-in development with an integrated ticketing and network offer."*
>
> [Expert interviewee]

Local authorities that are seeking to improve their city centres have found that bus congestion and pollution from older buses are major issues. Under the deregulated system a transport authority cannot ensure efficient scheduling of different operators or exclude substandard operators from using facilities without resorting to the legal steps of Statutory Partnerships. Even then, the powers are insufficient:

> *"Statutory bus quality partnership regulations can have some impact on the quality of buses using [bus-congested city centre] streets and to some extent on the numbers too. However, the regulations only enable the application of a restriction to the stopping facilities on that street. They cannot be used to control the number and quality of any buses using that street. To introduce restrictions on facility use, the LTA has to invest in costly offsetting facility improvements, and it is very difficult to introduce significant restrictions in a fair open manner that gives a level playing field to all existing and potential operators."*
>
> [Expert interviewee]

A knock-on effect of the inability to control and plan for bus movements through city centres has been a tendency to truncate bus routes rather than run cross-city routes. This makes journeys from one side of a city to the other more difficult for bus users.

If a development is sufficiently large to justify consideration of a new rail or tram link then there is no way to prevent bus operators competing against that and undermining its profitability, so the business case for such a link is liable to be undermined, perhaps fatally. If a tram project does go ahead, public subsidy has to be greater and integration with buses cannot be designed in. One expert interviewee identified multiple examples of bus integration problems in one tram project:

- Very poor bus-tram access at many interchange stops because stopping arrangements and bus frequencies could not be specified and incorporated in the tram project, with an 800m walk at one major interchange
- Competing buses with the tram to the city centre, with competitive journey times
- No bus feeder services to the tram
- Absence of real time bus information and bus shelters along the entire tram route

Some of these problems go beyond bus governance to deficiencies in the planning processes and powers of local authorities. Britain takes a relatively hands-off approach to development, ceding a large amount of power to developers, even where there is considerable public investment in major new transport infrastructure[89]. The Swedish hands-on approach to identification and masterplanning of major sites is a more sure-fire way to ensure that major new developments are appropriately planned to be effectively served by high quality public transport.

However, Britain's planning deficiencies are linked to bus governance deficiencies. Local authorities find that their negotiating position with developers regarding transport provision is weakened because the current bus governance laws specify complete commercial freedom for bus providers. Moreover, local authorities cannot advance a case for greater planning powers over developers unless they have greater control over bus provision.

**How far do current forms of bus governance enable a world-class system?**

- Bus governance that is constrained by deregulation cannot interact with land use planning to give the best solutions for new development.
- Ambitions for major improvements to the urban realm in city centres are severely compromised by the inadequacy of present bus governance powers.
- London's franchised bus system enables much more effective interactions with land-use planning. Even there the hands-off approach to the planning process militates against public transport being most effectively planned into the heart of development plans.

### 4.2.16 Policies to grow bus use supported by policies to reduce car use

**What would 'world-class' look like?**

Britain has a high-level policy to reduce its carbon emissions, with the Climate Change Act 2008 establishing a world-leading example by setting legally binding targets. This policy aim has been supported in recent years by funding to encourage more bus use through the Local Sustainable Transport Fund, Better Bus Areas funds and other channels. Maximum effect on modal shift to bus use would be achieved by complementary policies to reduce car use and make the bus more attractive in comparison. A world-leading policy would use all the available levers to achieve this, ranging across land-use planning, parking and road user charging.

**What is the current reality?**

Recent British governments of different political persuasions have supported bus use but have failed to address the other side of the policy equation, tending to treat policies that discourage car use as a no-go area. Some national policymakers have presented themselves as motorists' champions, perpetuating the idea of a 'war on the motorist', despite long-term trends of falling motoring costs in real terms[90], and a widening gulf with costs of public transport that have been rising in real terms[cxi].

[89] Docklands in London is perhaps the most extreme example. Developments associated with Crossrail will also largely be led by private developers.
[90] Fuel costs have risen, leading to a perception that motoring is more expensive, but overall motoring costs have fallen since 2001 once decreased purchase price is considered.

Motorists do form a numerous and vociferous lobby, but analysis of motorist opinion shows that 'motorists' are not the monolithic obstacle to reform that policymakers presume, with about 50% of drivers expressing preferences not to drive and potentially receptive to driving less[cxii].

Although there is considerable scope for more progressive action to encourage bus use by remove parking, increasing parking charges, introducing congestion charges and applying other road user charges, national government has been noticeable mainly for its absence of leadership in this debate. Local authorities such as Nottingham (workplace parking levy) and London (central congestion charge zone) have been left to lead the way. Other local authorities have been more timid, and in most areas there is no policy that explicitly links actions to increase bus use with actions to deter excessive car use. Even if the policies were in place, local authorities lack many of the powers that would be desirable to make the linkage. The most obvious deficiency is the inability in most areas to control either the cost of bus travel or the cost of parking[91].

**How far do current forms of bus governance enable a world-class system?**

- Very few local authorities are taking significant action to complement policies to increase bus use with policies to restrain car use. In some cases there is a failure to appreciate the importance of such policies; in other cases there is a perception that it is too difficult; and in every case some of the powers to take action are hard to access or not available at all. National government has failed to either support local governments that want to take action or to take appropriate action on a nation-wide basis.
- In London bus franchising has provided the ability for the transport authority to implement a fares policy with the deliberate intention of encouraging bus use. In theory this power could be valuable when introducing measures to deter car use, although Transport for London did not choose to directly link its flat fare policy for buses to its introduction of congestion charging.

[91] By comparison, Chicago sets its bus fares and sets the price of commercially-provided parking through a levy (in addition to controlling the price of parking on public land).

## 4.3 Overview rating the present system against the Charter

The discussion in this chapter is summarised in Table 4.3, which gives an at-a-glance overview of how well the present bus governance system can deliver each attribute in the Charter for a World-Class Bus System. For clarity the table uses a simple three-fold rating with a 'traffic light' colour coding: not achievable (red); partly achievable (amber) [92]; fully achievable (green).

Different readers may make somewhat different judgements of the degree to which the present bus governance options are capable of achieving particular attributes specified in the Charter. It is clear however, that with the exception of bus franchising[93], the present system falls far short.

Franchising also falls short on a number of attributes. Some failures are due to issues intrinsic to any franchising system (e.g. dividend leakage), some are due to how bus franchising is implemented in Britain at present (e.g. a race to the bottom on pay and conditions), and some are partly due to external failures in transport governance or wider policies (e.g. development not coordinated with public transport).

In the next chapter we consider how franchising might be improved, which other forms of bus governance may be even better than franchising, and how changes to bus governance should be supported by wider changes to governance of other forms of transport and wider policy changes.

[92] The 'partly achievable' category is broad, and does not show a distinction on some attributes where more can be achieved with a Statutory Partnership than with a Voluntary Partnership.
[93] The London contracting arrangement is taken as the basis for the assessment of bus franchising. If Quality Contracts Schemes were used as the basis of the assessment that would not change the categorisations, but some attributes would be shifted down within the 'partly achievable' category because of the restrictions attached to Quality Contract Schemes, such as its time-limited duration.

**Table 4.3: Charter for a World-Class Bus System: how well current bus governance can deliver**

| | Total de-regulation | Voluntary Bus Partner-ship | Statutory Bus Partnership | Bus Franch-ising* |
|---|---|---|---|---|
| **A world-class passenger experience** | | | | |
| 1. A comprehensive bus network, where you want, when you want | ■ | ■ | ■ | ■ |
| 2. Simple area-wide fares, valid across all local services (buses, trams and trains) | ■ | ■ | ■ | ■ |
| 3. Coordination of timetables and services between buses, and with other modes | ■ | ■ | ■ | ■ |
| 4. Bus services that run quickly and on time | ■ | ■ | ■ | ■ |
| 5. A stable network from one year to the next | ■ | ■ | ■ | ■ |
| 6. Easy-to-find, comprehensive information | ■ | ■ | ■ | ■ |
| 7. Affordable fares, competitive with driving | ■ | ■ | ■ | ■ |
| 8. Professional passenger-friendly staff | ■ | ■ | ■ | ■ |
| 9. Good quality vehicles and waiting facilities | ■ | ■ | ■ | ■ |
| **Cost-effective use of public money** | | | | |
| 10. Efficient and accountable use of public money that supports bus services | ■ | ■ | ■ | ■ |
| 11. Free bus travel for older and young people without undue additional expense | ■ | ■ | ■ | ■ |
| 12. All road passenger transport funded and governed together | ■ | ■ | ■ | ■ |
| **Buses part of a city's or region's strategic vision** | | | | |
| 13. Bus network purposely designed to achieve maximum public benefit | ■ | ■ | ■ | ■ |
| 14. One-area-one-network-one-brand | ■ | ■ | ■ | ■ |
| 15. Regeneration and development centred on enhancement of the public transport network | ■ | ■ | ■ | ■ |
| 16. Policies to grow bus use supported by policies to reduce car use | ■ | ■ | ■ | ■ |

*Bus franchising is taken here to be the London form of franchising.

Key: ■ Fully achievable ■ Partly achievable ■ Not achievable

# 5. How Britain's bus system should be reformed

## 5.1 Overview

The last chapter showed how local bus services in Britain (outside London) suffer because of the absence of a 'guiding mind' governance function. No one has the duties and powers to properly design local bus networks or to efficiently control the public funding that supports them. This puts Britain out of line with other countries in Europe: in Austria, Belgium, Denmark, France, Germany, the Netherlands, Sweden and Switzerland, most local bus services are run either by municipal operators or by commercial franchisees who bid to run services that are specified by the local transport authority[cxiii] [cxiv]. Even in the United States, local public transport is governed and coordinated by transit agencies at the state, metropolitan or city level, with many services provided by municipal operators[cxv].

Good governance alone will not ensure world-class bus services, and adequate public funding is also necessary. But bus governance and finances are mutually dependent. Bus services in Britain are presently facing a funding crisis, and inefficiencies of the deregulated system undermine the case for more public funding. This means that addressing governance is a prerequisite for justifying a better funding settlement for buses. It is, for example, impossible to implement an efficient system to provide concessionary fares until the governance system is changed.

This chapter looks at what reforms are needed. We deal first with bus governance issues and then look at financial issues.

## 5.2 Bus governance: duties

Some local authorities have shown they care about their local bus services and appear to be doing their best to minimise cuts to them. But others have shown a reluctance to support bus priority measures, even to the extent of removing existing bus lanes, and some councillors who do not use buses themselves have shown a failure to understand the value of bus services. When asked to identify the top non-financial obstacles to improving bus services, respondents to the ATCO survey repeatedly raised these issues:

> *"[Council] members not bus users"; "Antipathy towards bus services by councillors"; "Lack of understanding of how much bus services contribute to the economy"; "Political views of public transport"; "Lack of public transport knowledge and commitment by [council] members and officers"; "A 'why should buses have priority?' mentality"; "Lack of political interest"; "[Lack of] political will to introduce some bus friendly policies"; "Policy not always pro public transport"; "Lack of appetite for traffic demand restraint measures".*
>
> [ATCO survey]

Bus users who responded to the CBT survey had similar experiences. Although the weight of opinion was heavily in favour of re-regulation, there was a concern that some local authorities would let bus users down if greater powers were not backed by duties to support and improve bus services:

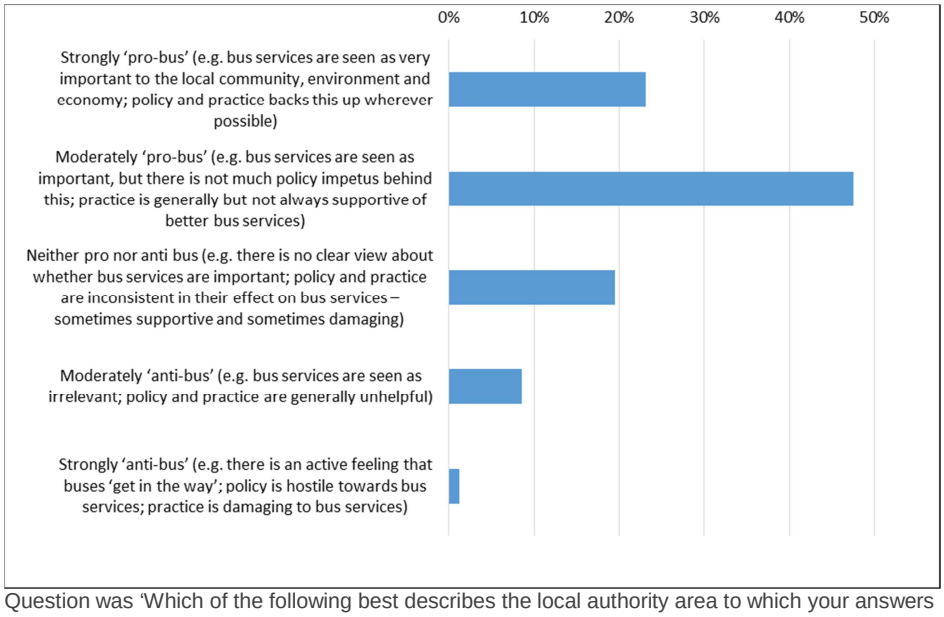
> *"I'd like to see more statutory involvement of local authorities, but they would have to have legal duties to fulfil, with guaranteed, ring fenced funding to allow*

*them to do it. Too many local authorities are uncommitted and, in some cases, quite hostile to bus services."*

[CBT survey]

These concerns apply to a minority – although a significant minority – of local authorities. Most respondents to the ATCO survey believed that their local authority was either strongly or moderately 'pro-bus' (71%), with only 10% believing that their local authority was strongly or moderately 'anti-bus' (Figure 5.1).

**Figure 5.1: ATCO members' perceptions of the attitude of their local authorities towards buses**




Question was 'Which of the following best describes the local authority area to which your answers relate?' [N=82]

Nevertheless, this evidence points to the conclusion that new statutory duties on local authorities are required to form a solid foundation for local bus governance. Local authorities should be charged with duties to improve bus services and increase local bus use. These duties should be accompanied by a duty to involve bus users (and bus operators) in the governance of local bus services. They might also be accompanied by a duty to reduce car use, in order that there is a modal shift from car to public transport. Alongside the new duties, it would also be beneficial to have quality standards for bus networks in different types of areas, so that bus users know what level of bus service they might reasonably expect. We deal with standards separately, in Section 5.6.

**CONCLUSION 1:**

- Local transport authorities should be charged with duties to improve bus services and increase local bus use.

## 5.3 Bus governance: extra powers short of franchising

Local transport authorities will require greater powers to be able to achieve their proposed duty to increase bus use. These powers must be sufficient to enable them to redesign their local bus networks to provide the best service for the lowest cost.

In theory, the powers that are already available to local transport authorities through partnerships could be modified and strengthened. One of our expert interviewees has developed ideas for 'Strengthened Devolved Statutory Partnerships', which

would give local transport authorities powers to register and control bus services on strategically sensitive streets, to prevent operators undercutting all-operator tickets and to require all operators to use a common retail network for smart ticketing. The Department for Transport's 'background document' in preparation for the planned Buses Bill also outlines ideas for stronger partnership arrangements[cxvi].

Although further strengthening of partnerships in this way would represent an improvement on the current situation, this would be modest and incremental rather than transformative. Strengthened partnerships within what was still essentially a deregulated system would not allow local authorities to deliver the key attributes of a world-class bus service, as outlined in Chapter 4. For example:

- There would inevitably be limitations on the extent to which a 'guiding mind' was able to plan and then deliver a comprehensive area-wide bus network, because commercial operators would retain the freedom to decide what routes to run, at what frequencies.
- Operators would still be able to set their own fares for single tickets, making it impossible to design a simple, single, trusted, area-wide zonal ticketing system of the type seen in London. It would also not be possible to provide Pay As You Go smart ticketing with price-capping for multiple trips.
- It would not be possible to coordinate services of different operators (for example, to provide even headways) across the network as a whole.
- It would be difficult to ensure network stability, as operators would retain the right to cut services at short notice. Provision of comprehensive, up-to-date information to passengers would thus remain a challenge.
- The uncontrolled costs of concessionary fare payments would also remain a problem.

Despite years of incrementally stronger partnerships, bus networks continue to fall far short of what users would want. We believe that this is because commercial freedoms regarding routing and pricing are fundamental to the deregulated system of which partnership models are part. This means that no partnership model – no matter how it is framed – is likely to be able to achieve the transformative change that is needed.

**CONCLUSION 2:**

- Local transport authorities should have powers to re-regulate buses, because on-street competition is incompatible with purposely designing a bus network for the public good.

## 5.4 Bus governance: franchising powers

Under present legislation the next regulatory step up from partnerships is franchising under Quality Contract Schemes. The summary Table 4.3 at the end of the last chapter showed that franchising may come close to providing adequate powers for network design. However, Quality Contracts appear immensely difficult to achieve, and in light of the rejection of the application for a Quality Contract Scheme for Tyne

and Wear, it appears likely that 'devolution deals' with HM Treasury are the only feasible route for local authorities to achieve franchising[94].

London's franchising system shows a good record of achieving comprehensive network design, with inter-mode integration, simple ticketing, high standards of driver training, investment in new vehicles, one-stop information services and marketing under a strong universal brand. It is much better than the deregulated system elsewhere in the country. We therefore believe that it is important that the Buses Bill should make it straightforward for any local authority to receive franchising powers, without having to meet onerous conditions or invest substantial amounts of time and money to acquire those powers.

In the following sections we look at the issues:

- What would be the costs and savings from franchising outside London?
- Do bus users consider they would benefit or lose from extension of franchising outside London?
- Do the council officers who would have the job of implementing franchising see it as a good thing or a bad thing?
- Are there ways that bus franchising could work better than in London?

### 5.4.1 Costs and savings of franchising

Some critics of franchising accuse London of being 'expensive'. In Section 4.2.10 we showed that this is not true in terms of the public subsidy per passenger journey, which is nearly one third below that in other metropolitan areas and nearly one half that in the rest of the country. Subsidy in London is also similar or lower than elsewhere when viewed as a proportion of total turnover. So, in terms of 'what you get for your public money', London is more cost-effective than elsewhere.

London does spend more on buses per head of population than elsewhere – almost double that in other metropolitan areas[cxvii]. It is, however, incorrect to conflate this decision to spend more for a better system with inherent costs of bus franchising. This is shown by the history of public funding for the London bus system. After the present franchising regime in London was established, funding to support bus services fell, and was all but eliminated by the late 1990s (falling to £1 million per year between 1997/8 and 1999/00, as shown in Figure 2.4, Section 2.5). One of our expert interviewees commented:

> *"In about 2000 London net support was just £1 million, which is effectively zero (less than 1%). London retained a higher level of ridership than elsewhere. They [London bus operators] reduced their cost by about the same rate per bus-km and they were actually less dependent on financial support than operators elsewhere. People tend to forget this."*
>
> [Expert interviewee]

Thereafter, there was a political decision to increase expenditure on London's buses to improve service levels and grow patronage (in which respect it was very successful). The present level of spending in London is indicative of what it takes to

[94] As at the time of writing, devolution deals expected to lead to bus franchising powers have been struck by Cornwall Council, and by combined authorities in Greater Manchester, Merseyside, South Yorkshire, Tees Valley, The North East and the The West Midlands.

achieve a bus service of this quality, but it is wrong to presume that this level of expenditure is an inherent feature of franchising.

Other expert interviewees were also of the opinion that franchising can be achieved without net additional cost:

> *"I don't buy the argument that it would be costly. Going back to Merseyside, 80% of the network is commercial. So, in simple terms, on a Quality Contract that wouldn't cost anything. In fact there should be some revenue coming in from that 80%. The other 20% is paid for [by the local authority] anyway. I don't see that that would cost any more. All the marketing, information and infrastructure the public sector pays for anyway. So what extra cost are you talking about? Some extra staff probably but then that should be paid for from the revenue that comes in from what is presently the commercial network."*
>
> [Expert interviewee]

Bus operators and the Quality Contract Scheme Board[cxviii] that considered the proposed Tyne and Wear scheme have argued that introduction of franchising might require substantial compensation payments to bus operators who fail to win contracts to operate their existing routes. However, any loss of business to incumbent operators would be due to increased market efficiency under franchising, giving effective competition in localities largely subject to de facto monopolies. The idea of paying commercial companies for loss of benefits resulting from market inefficiencies would run directly against long-standing policies to encourage competition. Furthermore, Parliamentary debate of this issue prior to the Quality Contract legislation in the 2008 Transport Act concluded that there was little or no legal basis for such claims. According to the House of Commons Transport Committee's report at the time[cxix]:

> *"Dr Roger Sexton of Nottingham Trent University argued, persuasively in our view, that any such claim to compensation [e.g. based on deprivation of possessions contrary to the First Protocol to the European Convention on Human Rights] would be weak. An outgoing operator is being deprived of neither its vehicles, nor its real estate [because it can sell or deploy these assets in other ways]. The only "asset" which the operator might claim to have lost is the "goodwill" of its customers in a market where customer loyalty to an existing established bus operator is generally very weak [i.e. bus users get on the first bus that comes along]. Dr Sexton suggested that this might merit the payment, at most, of very limited compensation."*

Our analysis suggests that a franchised system could offer substantial savings to the public purse, for several reasons. Savings would be realised as a result of retention of 'excess' profit that is currently being lost in deregulated areas; there would be patronage and revenue increases as a result of unified network design and simplified ticketing; and there would be efficiencies in procurement of those services that are currently tendered. These potential savings are summarised in Table 5.1 and explained in detail in Table 5.2.

Even allowing for some increased expenditure within local authorities to manage the franchising process, we estimate that introduction of franchising in deregulated areas could lead to financial gains of the order of £276 million in England excluding London; or in the order of £340 million in Britain excluding London. Immediate savings would be sufficient to reinstate cuts that have been made to funding for supported bus services since 2010 and to restore the 20% cut to the BSOG reimbursement rate in 2012. Further financial gains accruing over time would provide additional funding for new services, over and above the restoration of those that have been cut since 2010.

**Table 5.1: Financial gains from extending bus franchising beyond London, compared with recent cuts**

| | Annual gain (cost) (£million) | |
|---|---|---|
| | Britain (excluding London) | England (excluding London) |
| **FINANCIAL GAINS FROM FRANCHISING** | | |
| Retention of excess profit+ | 114 | 94 |
| Unified network design / simplified ticketing | 168 | 136 |
| Efficiencies in provision of currently tendered services | 79 | 63 |
| Lower profit leakage on reinstated services* | 1 | 1 |
| **COSTS OF FRANCHISING** | | |
| Additional staff in transport authority^ | (13) | (11) |
| Bidding costs for commercial operators~ | (9) | (7) |
| **NET GAINS** | 340 | 276 |
| **RESTORATION OF FUNDING CUTS#** | | |
| Cuts to local authority support for buses since 2010 | (76) | (73) |
| Cuts to BSOG since 2010 | (113) | (72) |

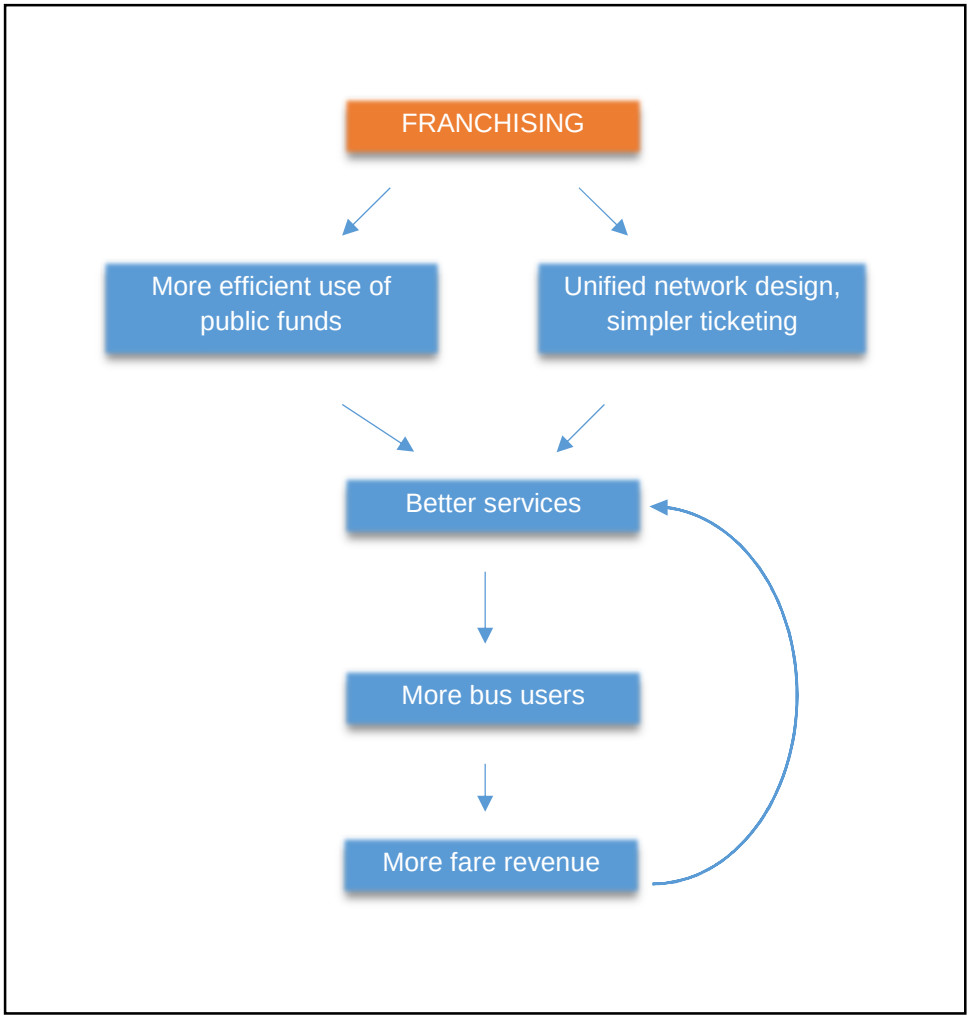
+ Based on annual average profit levels over a ten year period, for Britain, as per Table 3.1 in Chapter 3; figure for England calculated pro rata, in proportion to fare revenues.
* This saving would only be relevant if supported services that have been cut since 2010 were reinstated.
^ Assumes an average-sized local authority (population 500,000) would require two extra staff at £60,000 each including overheads. This is a worst case estimate, since most respondents to the ATCO survey who estimated extra staff requirements considered fewer than two extra staff would be needed, with some respondents considering that extra staff requirements would be zero or minimal, and one considering it would be less work than the present workload involved in tendering.
~ Franchise competitions incur costs for operators in preparing bids. These costs are not directly visible but have to be reclaimed by operators and therefore are reflected in the pricing of their bids. In the rail industry, expenditure by train operating companies in bidding for the (cancelled) Great Western franchise was 0.4% of the lifetime turnover of the franchise (£40 million out of approximately £10 billion). However, bidding for gross-cost bus franchises would be considerably simpler, as bidders would not have to carry out modelling of revenue forecasts or prepare development plans for the network, and so we assume a total bidding cost (across the whole industry and all bids) of 0.2% of turnover.
# Period covered is 2010/11 to 2013/14; data from DfT 2015 *Bus Statistics Table 0502b* and Scottish Government 2015 *Scottish Transport Statistics 2014* Table 2.9. Figures for BSOG reflect a combination of a 20% cut in the reimbursement rate in 2012, and changes to operated kilometres (and therefore amount of reimbursement).

**Table 5.2: Sources of potential savings from extending bus franchising beyond London**

| | |
|---|---|
| **Retention of excess profit** | Section 3.1 showed that bus company operating profits were substantially higher in areas where services are deregulated, than in London. If other parts of Britain were to adopt the London franchising system (i.e. a 'gross' contracting regime in which the transport authority takes the fare revenue), it is reasonable to expect that profit extraction by commercial operators would fall to the levels seen in London. Local transport authorities would retain the excess profit. Using the figures given in Table 3.1, this would be worth £94 million per year for England excluding London.<br><br>Note that some proponents of deregulation argue that declared profit differences between London and elsewhere merely reflect different accounting practices for bus leasing (i.e. 'rental') costs in London, versus financing costs for vehicle purchase elsewhere (bus leasing payments are treated as an operating cost and therefore reduce declared operating profits, EBIT, earnings before interest and tax; whereas financing costs on loans for vehicle purchase appear in company accounts after operating profits). We believe this argument is incorrect because:<br><br>• Outside London, almost all profit is paid out to shareholders as dividends, and is therefore not being used to finance vehicle purchase (Table 3.1, Chapter 3). If there were no excess profits, dividends as a proportion of turnover would be similar inside and outside London. Yet, as Table 3.1 shows, dividends as a proportion of turnover are almost double the London level in the metropolitan areas, and 45% higher in other areas, strongly indicating that there is excess profit.<br><br>• While it may be true that leasing is more significant in London than elsewhere, a high proportion of buses in London are still purchased, as in the rest of the country. Bus operators appear to use the high vehicle specification in the London contracts as a basis to purchase top-of-the-range vehicles that they can later 'cascade' to parts of their operations outside London. Go Ahead, the largest operator in London, owns half of its London bus fleet[cxx]. Other buses operated in London, the New Routemaster fleet, entail no leasing costs, because Transport for London owns these and makes them available freely. |
| **Patronage and revenue increases from unified network design, simplified ticketing and marketing** | If the network were designed as a whole, with integrated ticketing and unified marketing, there would be patronage and revenue increases. The potential for additional revenue would vary from place to place according to their bus market characteristics, but in some places would be considerable. Research by Booz & Co. for pteg found that simplified, integrated ticketing had increased patronage by 6-20%, and revenue by 1-12.6%, in case study areas in the UK, Europe and America[cxxi]. On the conservative assumption that overall revenue growth might be in the middle of this range, this implies additional fares revenue across England outside London of £136 million. |
| **Efficiencies in providing coverage to the portion of the bus network that is tendered at present** | Under a franchising system the bus network can be designed as a whole. This gives an opportunity for more efficient procurement than the current reactive approach to procuring tendered services. In many areas there will be options to modify existing commercial services to cover services that are presently tendered. Modern electronic ticket machines can easily provide cost and income visibility at route and sub-route level, giving the management information required to strike the most cost-effective balance. It is not possible to estimate the likely level of savings precisely, but even on a conservative assumption that only 20% of the present budget for tendered services would be saved, there would be a saving of £63 million in England outside London. |

| | |
|---|---|
| **Lower profit leakage on reinstated services** | Savings arising from the factors listed above would enable local authorities to reinstate supported bus services that have been cut in the last five years. If services were procured under a 'gross costs' regime the reinstatement cost would be slightly lower than the original cost. The present market in tendered services is not as efficient as it could be, with 24% of tenders receiving just one bid in 2013 and 1% receiving no bids at all[cxxii]. The Competition Commission Inquiry into buses[cxxiii] calculated the savings that would result from changes to the tendering system: for a tendered market of £450 million, the Commission calculated a saving of £5-10 million, i.e. approximately 1-2% of public subsidy. This is consistent with views of informed observers that removing the revenue risk for companies is likely to lead to them accepting lower margins by up to 2-3% of turnover. Applying the mid-range of the Competition Commission calculations pro-rata to the £73 million contract value of services cut in England outside London since 2010, savings of £1 million would be predicted. |

**Figure 5.2: Potential for franchising to stimulate a virtuous circle**




These figures suggest the potential for a virtuous circle (Figure 5.2), in which franchising enables more efficient use of public money and at the same time unlocks

bus network improvement such as simplified ticketing. These changes lead to better services, which result in more passengers and more fare revenue, providing money for further service improvements. It would be fair to note that some places have already achieved this even with the constraints and profit leakages of the deregulated system, but for many places outside London the present situation is a vicious circle of managed decline. The figures suggest that a switch to franchising could liberate sufficient funds to enable these areas to halt decline and in some cases initiate a virtuous circle.

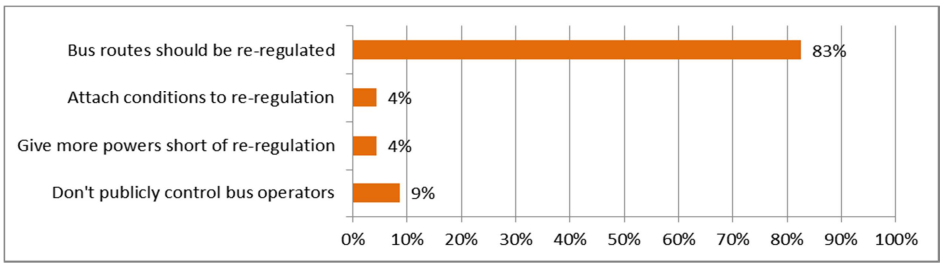
**CONCLUSION 3:**

- Franchising would represent better value than the deregulated system. It would immediately liberate sufficient funding to restore cuts made since 2010, and over time would generate additional revenues sufficient to add new services.

### 5.4.2 Views of franchising amongst bus users and local authority officers

The CBT supporter survey asked a single open-ended question about what respondents would like to see in a Buses Bill. It did not specifically ask about franchising. Nevertheless, 23 of the 68 people who responded to the survey expressed views on deregulation and re-regulation[95]. A large majority of these, 83%, wished to see re-regulation (Figure 5.3).

**Figure 5.3: Bus user perspectives on re-regulation**

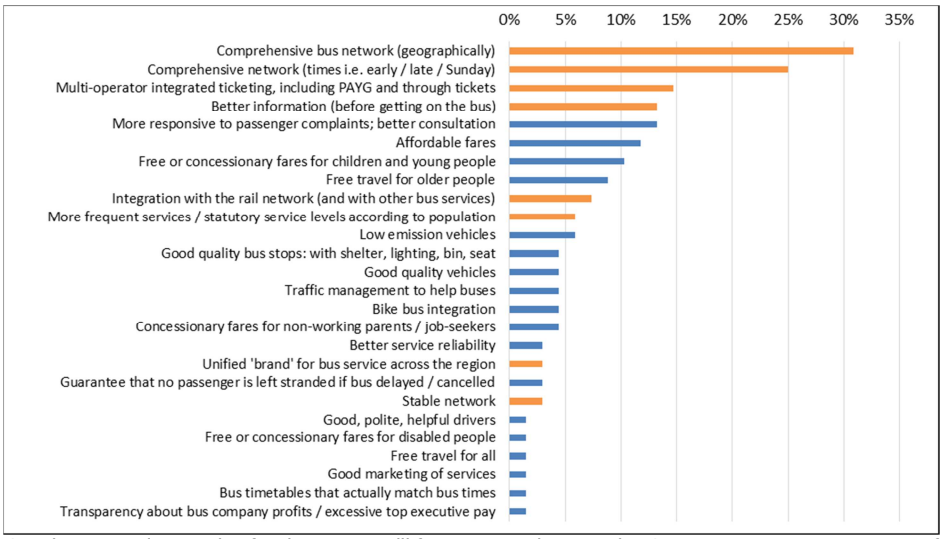



This graph only counts the minority of respondents who spontaneously referred to local authority powers or regulation. Although shown as percentages, the number of respondents is small (N=23).

Analysis of other changes that respondents wanted to see shows that the top four 'asks' were all for changes that are extremely difficult (or impossible) to deliver in the absence of a regulated system (Figure 5.4): comprehensive bus networks, both in terms of geography and in terms of off-peak services; multi-operator ticketing including 'PAYG' and through-tickets; and better information.

[95] The broad term re-regulation is used here to encompass responses that advocate re-regulation and imply a system with a level of control akin to franchising but which may not use precisely that terminology.

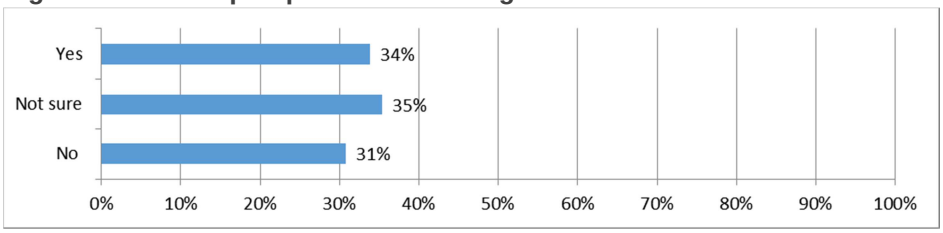
**Figure 5.4: What bus users want to see in the Buses Bill**




Graph summarises 'asks' for the Buses Bill from respondents to the CBT survey. Percentages are for respondents requesting each change (N=68). Orange bars are changes that would be extremely difficult (or impossible) to deliver without franchising.

ATCO officers gave more mixed responses. In answer to a survey question about whether they would implement franchising in their local authority, if it were readily available, there was a roughly even three-way split between 'yes', 'no' and 'not sure' (Figure 5.5).

**Figure 5.5: ATCO perspectives on re-regulation**




Question was 'If the local authority you work for (or used to work for) received bus franchising powers, would you wish those powers to be put into operation?' Although shown as percentages, the number of respondents is small (N=65).

Most of those who responded 'no' or 'not sure' had reservations about the local authority's capacity and expertise to manage franchising, with many of these doubtful that the authority would give sufficient political priority to providing that resource and also wary of political interference in bus service provision. Some were concerned that without more funding, franchising would simply 'shift the blame' for declining services from government to the local authority; others considered that the extra resource to manage franchising would be unjustifiably costly, and appeared unable to appreciate that there may be potential for franchising to capture and redeploy the present profit within the commercial portions of bus networks. A significant number expressed a view that the present system was working fine, a marked contrast to bus users' responses in the CBT survey.

It is indisputable that local authority cut backs have led to a loss of bus expertise and capacity. In some local authorities buses have become such a minor political consideration that there is minimal allocation of officer time. In these cases a change to a franchising regime certainly would require more staff. A major change in political recognition of the role that the council has to play in bus provision would also be necessary, and indeed one of the 'not sure' respondents linked their response to the absence of statutory duties on local authorities. For those council officers in these circumstances it is understandably hard to see opportunities in franchising. One of

our expert interviewees said he would anticipate that, faced with the option of franchising, many local authority officers would feel 'Oh, I can't cope – not something else to do!'

Conversely, those who responded 'yes' felt that franchising could be accommodated within existing staff resources or with minimal extra staff. One respondent took the view that it could be arranged with less work than provision of existing tendered services. The 'yes' respondents tended to take a whole-system view of costs rather than those incurred by the local authority alone, considering that there would be no net cost to the system if network planning functions transferred from operators to local authorities, and with two respondents making comments to the effect that 'Savings in bus tendering costs would more than offset additional staff costs'.

One respondent who answered 'yes' commented that because franchising powers are being given to some local authorities, they must be given to all, to avoid cross-boundary problems.

Deregulation is now so far in the past that the majority of council officers have no direct experience of other forms of bus governance. It is likely that some councils will require a nudge to realise the benefits that bus users want to see from re-regulation. This might be from seeing the effects of franchising in the local authorities that do it first. As evidence of the effects of franchising accumulates, it may also become appropriate for central government bus improvement funding programmes to be conditional on local authorities taking up re-regulatory powers.

Even in local authorities that have the expertise and the will to re-regulate, the opportunities will not be taken up if they see significant obstacles. The North East Combined Authority, one of the best-resourced local transport authorities, was unable to succeed with its Quality Contract Scheme for Tyne and Wear under present legislation. It faced determined opposition from well-funded multinational bus operators. To achieve large-scale reform re-regulation must become easily achievable by local authorities. Local transport authorities should not be required to pass a test to establish a regulated system in their areas. National government must remove the legal burden from local authorities by making the legislative and legal case at national level that re-regulation is justified, so as to set a legal presumption that re-regulation will be the norm. The last three decades of deregulation have provided ample evidence to make this case at the national level.

**CONCLUSION 4:**

- Introduction of franchising is likely to be gradual, with some local authorities waiting to see the experience of the 'early adopters'.
- National government must take responsibility to remove all legal obstacles to re-regulation for local authorities and make franchising the 'default' option.

### 5.4.3 Improvements to the London model of bus franchising

London-style franchising is much better than the deregulated situation elsewhere in Britain. Some features of the governance structures in London serve as a useful model that should be adopted by future authorities undertaking franchising. It would, for example, be valuable to replicate in new franchise areas the representation of passenger interests at the highest level in the franchising authority. Input from

disabled members of Transport for London's board appears to have helped achieve dramatic improvements in access to London buses for travellers with disabilities. A similar model should be applied elsewhere[96].

The London franchising governance system is not perfect, however. Here we look at two possible improvements:

- Determining the optimum number of routes within a franchise
- Avoiding the 'race-to-the-bottom' for pay and conditions

**Optimum number of routes within a franchise**

Three types of approach can be distinguished: London franchise contracts are generally let at the level of individual bus routes[cxxiv]; Tyne and Wear's Quality Contract Scheme proposed to group most routes together at depot level[cxxv]; and other European countries such as the Netherlands[cxxvi] tend to let contracts for whole regions or cities.

The London approach involves a rolling programme that re-contracts about 20% of the network[97] every year. This approach offers the advantage of never requiring a large switch-over for any part of the network and is a steady-state workload for the contracting authority. It is the most accessible system for small operators, although in practice smaller operators may still experience difficulties with market entry thresholds such as obtaining depot space. The downsides are that it may not be the lowest administrative workload for the contracting authority, or for operators, and that having multiple route-level contracts within a single depot, each requiring its own dedicated staff, tends to disable bus operators from managing staffing at the logical level of depots, with staff flexibility to serve different routes as required. For staff, the possibility that their route may switch to another operator at another depot, combined with the relatively short contracting period, is a major source of uncertainty and entails regular disruption to their lives, even when transfer to new employers is guaranteed under TUPE.

In the Netherlands, whole-town or whole-region contracting was considered by one study to have facilitated 'efficiencies and a greater focus on integration', particularly where the contract had covered regional rail as well as buses. However, this judgement was in the context of operators being given substantial network design freedom and does not consider the relative merits of network design by an integrated transport authority that controls all modes. The same study notes that since the introduction of franchising in the Netherlands in 2000 there has been an increasing tendency for contracts to become more directive and limit operators' freedom to change routes, frequencies, fares, vehicles, etc[cxxvii]. Major disadvantages of area-wide contracts are the upheaval at contract changeover and the exclusion of smaller operators, who can only win contracts for more specialist services within their capacity. Over the longer term, this 'winner takes all' approach may also not be in the public interest, as it risks reducing the number of operators from which a

[96] One expert interviewee took the view that bus users should have a statutory right of involvement where franchising is applied. If local transport authorities received duties to improve bus services and increase bus use, as recommended in Section 5.2, plus franchising powers to enable them to act upon those duties, we believe that would of itself enable bus users to exert influence through their elected council members and local council officers using existing democratic processes. However, additional consultative structures specific to bus use, to draw on bus users' experience, would be likely to help achieve maximum public benefit from bus franchising.

[97] Contracts are normally for five years, longer contracting periods would imply a smaller proportion of the network needed to be re-contracted every year.

franchising authority can choose, so that no operator is in a position to compete with the incumbent. There is evidence from France and Germany that over time, the number of operators competing for this type of contract tends to fall, and the proportion of contracts where the incumbent wins tends to rise[cxxviii] [cxxix].

Nexus proposed depot-level contracting for Tyne and Wear for three reasons: depot groupings, at least in theory, reflect an operationally efficient division of resources because the existing operators split their services that way; transfer of staff to the new operator is less likely to require relocation; and the administrative process of re-allocating staff to the new contractor under TUPE is made more straightforward. Depot-level contracting may therefore seem to be a happy medium. However, the impact on a smaller operator that has only one or two depots remains potentially devastating if they lose a contract under this system. Risks for smaller operators might be mitigated if local transport authorities took on ownership of vehicles or some depots.

One of our expert interviewees, with experience of managing public transport responsibilities for local authorities in both rural and urban settings, took the following view:

> *"My preference would be service by service. Because it would allow almost any of the operators to be involved. You wouldn't want just one operator being able to bid. And to go below a route - having a couple of operators working the same route - works less well."*
>
> [Expert interviewee]

In summary, route-level franchising is probably best for small bus operators, depot-level franchising may be best for bus company employees, and area-wide franchising is potentially bad for both of these groups and may not be in the public interest in the longer term. Starting from the position Britain's bus services are in, avoiding disruption to employees and potential damage to small operators should be priorities during the shift to a franchising regime. A depot-level approach with risk-reducing measures may offer a suitable compromise.

**CONCLUSION 5:**

- A successful transition to franchising requires a balance between minimisation of disruption to staff and avoidance of excessive risk for small operators.
- Transport authorities are likely to achieve greatest operational efficiency and least staff disruption through depot-level franchising, but this approach should consider risk-reducing options to facilitate bids from small operators, such as keeping a proportion of routes on a route-by route franchise or taking municipal ownership of some depots and vehicles.

### Avoiding the race-to-the-bottom

One significant defect of the London tendering system is that there has been a 'race-to-the-bottom' in employment terms and conditions, which has led to industrial relations problems. Strikes have caused severe service disruption, including total cancellation of most of London's bus services for whole days in early 2015[cxxx]. The resulting inconvenience for bus users is immense, creating knock-on economic effects and undermining the London Mayor's stated policy objectives of 'increased attractiveness of low carbon modes of public transport ...leading to further mode shift away from the car'[cxxxi]. It is a failure of the bus governance system when strikes occur.

Some parts of Europe have achieved bus franchising whilst ensuring minimum standards for staff pay and conditions:

> *"[Productivity enhancement through tendering in the Netherlands] has nothing to do with wages. These are regulated by a national tariff agreement that all operators have to respect. Competition between operators is not in wages but in efficient usage of the existing workforce, within the boundaries of the existing tariff agreements...This is not a topic that leads to debate ... we don't have strikes. There are of course also other issues of productivity which improved with tendering or the threat of tendering, these relate to maintenance, vehicle costs, overheads (GVB just halved its head office, for example), etc…"*[cxxxii]

Comparison with other European countries reveals two things that are absent in Britain: agreements on pay and conditions that span the whole bus sector; and legal requirements that franchising contracts must adhere to minimum standards of pay and conditions. Where German states have adopted 'Tariftreue' legislation that says contracts for buses and other public services must set minimum standards for pay and conditions, the standards have generally taken the sector-wide agreement as a basis[cxxxiii]. Research in Germany has shown that the introduction of competitive tendering in the bus sector has lowered wages and conditions towards the standards in sector-wide agreements[cxxxiv], but at least these agreements, underpinned by the Tariftreue, have put a floor under the race-to-the-bottom.

Since local public transport is an essential public service, we believe that there would be significant public benefit in establishing statutory joint industrial councils with responsibility to set pay and conditions for bus industry employees[cxxxv]. These would provide a forum for agreement between bus workers' unions and employers and would provide define the basis on which local transport authorities and bus operators could contract together to encourage efficiency without exploiting staff. The negotiation process and structure must be such that it is trusted by local transport authorities, operators and staff, with representation from all three parties.

Given the present starting point of significant disparities between regional pay and conditions, a two-tier approach at national and local level would appear to be most sensible. A national statutory joint industrial council would provide the national minimum standards for pay and conditions for the entire bus sector. At the local levels, statutory joint industrial councils would have freedom to set pay and conditions above these minima. This would be similar to two-tier approaches in other European countries, such as Germany and Italy[cxxxvi]. The areas of local statutory joint industrial coucils should mirror areas defined for franchising, although could span more widely where appropriate.

Some steps towards local sector-wide negotiations have been taken in London, where terms of reference for a London Buses Sector Wide Forum were agreed by Transport for London, Unite the Union and London bus operators in November 2015. The remit does not extend to pay and conditions but does cover a wide range of issues, including the business plan, technology, driver training, safety, driver facilities, performance, customer satisfaction, development of best practice, and employee transfer when franchises change hands[cxxxvii].

Franchising systems also need to ensure that when a bus service changes operators, employees are transferred to the new contractor and that they retain benefits and pension arrangements accumulated during their service with the previous contractor. In this respect, Britain's Transfer of Undertakings (Protection of Employment) regulations (TUPE) compare well with other countries. Nevertheless, the levels of disruption for employees within the present London system of franchising have resulted in most employees having no good choice of pension scheme, so that most workers have very inadequate provision arrangements. The

Quality Contract legislation directs[cxxxviii] that TUPE will apply for terms, conditions and pensions. It also provides an additional guarantee that bus operators that win contracts can apply for their employees to join the local government pension scheme (i.e. the scheme of the franchising body) or an equivalent scheme[98]. Extension of franchising in Britain should be on the same basis and franchising in London should rise to this standard.

**CONCLUSION 6:**

- Legislation that gives transport authorities franchising powers should direct authorities to adopt minimum staff terms and conditions that must be met by all operators.
- Bus sector statutory joint industrial councils should be established for each franchised area and at national level to set staff pay, conditions and pensions.
- Explicit rules to apply TUPE to bus franchising are required.

## 5.5 Powers beyond franchising: a bigger role for municipal operators

In Britain, there has been a presumption in recent decades against municipal operation of public services. However, a counter-trend of local authorities bringing outsourced public services back in-house is starting to emerge. Research by the Association for Public Service Excellence identified "mounting evidence that councils have been bringing services back in-house and are continuing to do so", across a range of public services spanning waste management, housing, leisure and highways. This insourcing is happening "for practical reasons rather than any ideological stance", as part of a local authority drive for "quality service provision and value for money". It is taking place in local authorities of all political complexions[cxxxix].

There is also a resurgence of interest in municipalisation of services in continental Europe – but here it is on a larger scale, including local public transport as well as water, waste management and energy. The trend in Europe seems to be driven by a perception that outsourcing has failed to deliver the innovation, efficiency improvements and cost savings that were promised by tendering.

This raises the question of whether reform of bus governance in Britain should go beyond the introduction of franchising, and enable local transport authorities to establish municipal bus companies in place of the current deregulated system. If awarded a 'whole network contract' to operate bus services across an entire local authority area, municipal bus companies would have the potential to score highly in achieving the attributes set out in the Charter for a world-class bus system, as they would provide a 'guiding mind' which would make it easier to create a comprehensive network, with simple area-wide fares and comprehensive information. This section considers whether municipal bus operators should have a bigger role. We look at:

- International evidence on the role and performance of municipal services
- British municipal bus operation, and local authority views on how it might change

[98] At present only employees with long service in a municipal bus company would have such a pension scheme.

- Potential cost savings from municipal operation compared to franchising
- Efficiency, governance, and employee relations within municipal operators
- How municipalisation might happen

### 5.5.1 International evidence on the role and performance of municipal services

Austria, France, Germany and the USA provide some interesting, and in some respects unexpected, evidence on the role played by municipal bus services, and on the relative merits of insourcing and outsourcing more generally.

In Austria, municipal transport companies have a dominant position in the main cities, including Vienna, Linz, Graz, Innsbruck and Salzburg. They are constituted as limited companies at arms-length from the city administration, but with the shares entirely owned by one or more local authorities. A high proportion of rural bus services are provided by Postbus GmbH, which is also publicly-owned[cxl]. Analysis of the bus system in Vienna suggests that it is efficient in terms of cost-control, has been successful in attracting investment for service improvements, and provides a very high quality of service (see case study in Box 5.1).

The situation in Germany is similar to Austria, with most bus services in urban areas provided by municipal operators, but some services contracted out to private operators, especially for suburban routes[cxli]. Where services are contracted from the private sector, there is a deliberate policy of dividing tenders into small lots in order to make them attractive to small bus operators[cxlii]. The latest statistics show that there are 387 publicly-owned operators providing local public transport (including tram and short-distance train as well as bus) across Germany, and that these operators are responsible for 88% of all passenger trips. Private operators (of which there are nearly 2000) are mostly small, and account for only 7% of trips, with the remaining trips provided by operators in mixed public / private ownership[cxliii].

**Box 5.1: Case study of municipal bus operation in Vienna**

The public ownership of Vienna's local transport services has been analysed by academics at Vienna University of Economics and Business[cxliv]. Vienna rated highly against international comparators on a range of service quality criteria, and public transport now accounts for 39% of travel in the city (more than car use, which has been steadily squeezed down from 38% in 1996 to 28% in 2013, mainly through a switch to public transport[cxlv]). Services have continually expanded and improved since the 1990s with new vehicles, expanded hours of operation, introduction of universal night buses and through-the-night underground services at weekends. The forward strategy involves further expansion of the network, particularly the underground, and other improvements.

The system is very largely in the public sector, but the outer suburban bus services are an example of mixed service provision, with some bus routes in the outskirts (amounting to one third of bus seat kilometres in the city) subcontracted by the publicly owned transport company to private operators.

The financial picture is that the Vienna transport system has seen steadily increased investment for improvements but public subsidies for operational costs have remained approximately constant for the last decade.

The authors cite analysis showing the efficiency of service provision is above the average of international comparators and conclude that:

*"There is no evidence or convincing indication that sharper competition due to the*

*liberalisation or privatisation of LPT [local public transport in Vienna] would improve efficiency...Moreover, from a transaction cost perspective, the realised institutional arrangement also seems to be advantageous".*

Transaction costs are the costs that arise at all the interfaces created between the sellers and buyers in a system based on a competitive market for services. If, as is generally the case in outsourced public transport, multiple private sector providers are responsible for providing different elements of what needs to be an integrated service, then further transactions and associated costs arise at the interfaces that are required between the different providers. The study regards transaction costs as an important factor in the decision between in-house provision and outsourcing to private providers. It considers that:

*"The coordination effort required for various practical and policy issues - e.g. for the harmonisation of tariffs or for new transport services – is likely to be much less daunting than with alternative organisational models."*

In contrast, most urban public transport in France has historically been provided by companies that operate nationwide. Since the early 1990s, bus provision has mainly been under city-wide franchise (délégation de service public, or DSP) to the local authority[cxlvi]. The market is overwhelmingly dominated by two large operators, Keolis and Transdev[99], who between them operate two-thirds of all urban bus networks outside Paris and the Ile-de-France, accounting for 74% of passenger trips[cxlvii]. However, in recent years there has been a trend of re-municipalisation. Some towns have taken on direct management of their bus services, while others have taken advantage of the creation in 2010 of a new form of arms-length 100% publicly-owned limited company structure (Société Publique Locale, SPL). Out of 186 bus networks included in the most recent survey by GART (the group for local transport authorities in France), 25 have taken on direct management or set up an SPL since 2003[cxlviii]. As the examples in Section 3.3 suggest, this is partly in order to reduce costs while maintaining services. It also reflects local politicians' misgivings about the service they are being offered by the big bus operators, and the lack of effective competition. The trend has been seen equally in places with right-wing and left-wing administrations, and the Secretary General of AGIR, the association of independent public transport networks, has commented that "their choice is actually guided by a quest for both economic and technical performance of the network"[cxlix]. Box 3.1 in Section 3.4 gives details of the savings local authorities have achieved.

Looking beyond transport at insourcing and outsourcing more generally, there seems to be a pragmatic approach in continental Europe, with outsourcing increasing over the last two decades but re-municipalisation where outsourcing is perceived to have failed. A study in 2011 of German municipalities seeking cost savings found that, of those that were planning changes to how they provide public services, less than 3% were considering privatisation, whereas 36% were considering re-municipalisation and 41% were considering inter-municipal cooperation[cl]. German municipalities have formed 72 new publicly owned companies in the energy sector since 2005[cli]. One politician, head of the department of labour and economic development in Munich, commented that:

[99] Transdev, a private-sector company, was previously Veolia and then Veolia-Transdev. Keolis is 70% state-owned (by SNCF), and 30% by Caisse de dépôt et placement du Québec, a major Canadian institutional fund manager that manages funds for public and parapublic pension and insurance plans.

*"German cities have followed many different strategies regarding the privatization of public services and the experience gained from these approaches was just as varied. The 'first the market, then the state' strategy has worked quite well in some fields. But in an alarming number of cases, the results of privatization were highly problematic and do not seem to indicate that privatization can be seen as a silver bullet. That is especially true for sectors which are prone to producing monopoly or oligopoly structures such as energy supply, public transport or water supply, just to mention a few. After years of privatizing formerly municipal services, the results are sobering…In the history of privatization of local public transport, more often than not, the services provided were reduced dramatically and the prices saw steep increases. If we want to push back individual motorized transport and if we want to reduce CO2 emissions, we need high-performance local public transport systems and transport companies."*[clii]

[Dieter Reiter, speaking at 10th Munich Economic Summit, May 2011]

The USA provides another perspective. Compared with Britain or continental Europe, American local government is less bound by laws from higher authorities stipulating how they provide public services. Decisions about insourcing or outsourcing are therefore largely taken at managerial levels on a case by case basis. An analysis[cliii] of 67 types of public services between 2007 and 2012, drawing on over 500 American city and county authorities, revealed a gradual move towards more municipal service provision. In comparison with Europe it found 'lower rates of privatization and higher rates of reversals [from commercial outsourcing]'.

The study found that nearly half (49%) of services were provided via direct public delivery throughout the period and nearly one third (30%) were provided throughout by outsourcing to private organisations or neighbouring municipalities' not-for-dividend service departments. For the remainder of services, where the service delivery arrangements had changed, new outsourcing and new insourcing were approximately balanced, with 11% new outsourcing and 10% new insourcing. However, there was 60% more likelihood of reversing outsourcing to a commercial provider than to a not-for-dividend municipal provider. So the overall trend was a slow move towards less commercial service provision.

The top two reasons cited for reversing outsourcing were problems with service quality and lack of cost savings. The third reason was increased efficiency of direct in-house service provision, which the study presumes arises from the presence of an outsourced comparator. Where services were contracted to a private sector company a significant proportion (40%) retained some of that service in house. The authors attributed this mixed service provision to a desire to influence the market for those services and to achieve reversibility from outsourcing.

This international evidence points to the conclusion that other countries have a more pragmatic approach than Britain, recognising the potential advantages of municipal service provision as a monopoly provider or as part of a managed market. We think that local authorities in Britain should be able to explore the potential benefits of municipal bus operation too, and, if they conclude that in their particular local circumstances it would offer benefits over the deregulated regime, they should be able to establish a new municipal bus operator.

**CONCLUSION 7:**

- Britain should permit local transport authorities to emulate international examples of good quality cost-efficient municipal service provision.

### 5.5.2 Comparison of British and European approaches to municipal bus operation

As already noted, a few British towns and cities still have a municipal bus operator, but because they operate in a deregulated context, commercial operators are free to compete with them – both 'on-road' and by competitively bidding to operate tendered non-commercial routes.

This differs from the Austrian / German and French system in two key respects, as summarised in Table 5.3.

**Table 5.3: Comparison of municipal operation in Britain, Austria / Germany and France**

| Within an area with a municipal bus operator… | Britain | Austria / Germany | France |
|---|---|---|---|
| …municipal company operates most (or all) routes | ✓ | ✓ | ✓ |
| …some non-commercial routes put out to tender | ✓ | ✓ | ✗ |
| …private operators allowed to compete on commercial routes | ✓ | ✗ | ✗ |

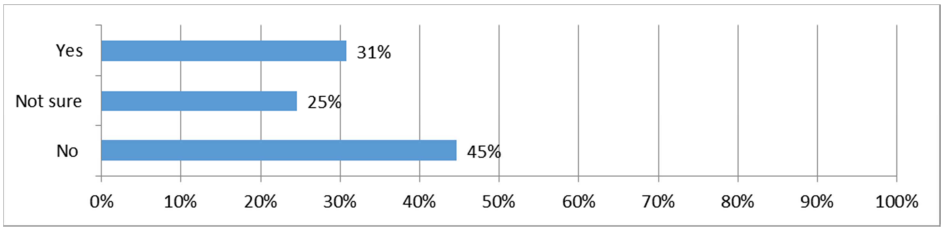
In both Austria and Germany, some cities with municipal operators put a proportion of non-commercial suburban routes out for competitive tender. The tendering may be undertaken by the municipal operator themselves (e.g. for suburbs of Vienna), or by the local transport authority (e.g. for suburbs of Munich[cliv]), but it is not generally the case that the routes operated by the municipal bus company are subject to competitive tender. This 'mixed model' combines direct award to the municipal bus company in a core area, with a managed market, fulfilled largely by smaller bus operators, in outlying areas. In French towns and cities that have opted for direct management or an arms-length municipal operator, this type of involvement of small private operators does not seem to be as significant as in Austria and Germany.

In Germany and France, unlike Britain, commercial operators are not able to operate services in direct 'on-road' competition with municipal operators.

In Austria, it is possible for commercial operators to apply for a concession to operate on a commercial basis on a particular route. However, their application will only be accepted if it is judged to be useful and efficient in terms of meeting transport needs, and does not run counter to the public interest. If granting of a new concession would jeopardise the services of an established operator, this is seen as contrary to the public interest, and permission would not be given. Direct competition between two companies on the same route is avoided. This protects incumbent municipal operators from 'cherry-picking' incursions by competitors[clv] [clvi].

Given the different models of municipal operation in Britain and elsewhere, we were interested in whether local authority transport officers in Britain would favour a more 'European-style' of municipal bus operation in Britain. There was a range of views about this amongst ATCO survey respondents. Nearly a third (31%) felt that the law should be changed to allow local authorities to terminate deregulated access by commercial operators and deploy a municipally-owned bus operator across their entire bus network, while 45% disagreed and a significant proportion were unsure (Figure 5.6).

**Figure 5.6 ATCO perspectives on municipally owned operation of entire bus networks**




Question was 'Do you think UK law should be changed to allow 'whole-network local contracts' [direct awards to the exclusion of other operators] in places with municipal bus companies?' Although shown as percentages, the number of respondents is small, N=65.

The majority of those responding 'no' were concerned that competition was more efficient and more innovative. There was also some fear of political interference, as with those that opposed the idea of franchising. The following comment typifies the views expressed:

> *"This would remove competition from the market place, which would eventually cause upward pressure on operational costs."*
>
> [ATCO survey]

Some of those responding 'not sure' indicated they were broadly in favour of allowing municipalisation but would wish to know the detail of how it would happen before committing. Others kept an open mind but wanted to see measures in place to keep down costs and keep up quality:

> *"It could lead to a very good service. Alternatively it could end up with a less efficient and reliable monopoly. The pre-deregulation bus industry had both very good and bad. Such a regime would need controls and safeguards in place to allow a way out from a poor provision situation."*
>
> [ATCO survey]

The reasons that respondents gave for supporting municipal operation were more varied, covering profit capture, network stability, assuring quality, local control, lower costs and avoidance of wasteful competition. Some added suggestions as to how it should be undertaken, pointing out the need for measures to enforce efficiency and to facilitate cross-boundary service provision:

> *"Profits could be reinvested into the network, quicker reaction to local market conditions, one brand, wider customer base if integrated with NHS / Education / Social Service transportation etc."*
>
> *"Would allow better overall control of the network if the law is changed to allow municipal bus companies to operate a viable business without the risk of "incursions" of "cherry-picking" from private operators."*
>
> *"Would ensure that the local population will have a say in the services they receive and also the company would be responsive to local changes."*
>
> *"Experience shows that single operator benefits arise - excluding competition reduces waste but so far the option has not been available."*
>
> *"They are best placed to provide local solutions at lower costs."*
>
> *"Would secure quality."*
>
> *"Would give much-needed stability but safeguards would be needed to ensure efficiency."*
>
> [ATCO survey]

In those towns and cities in Britain that already have a municipal operator, we believe that the option of awarding 'whole network contracts' to the municipal operator should be available to local transport authorities. This is important in order to protect municipal operators against 'cherry-picking' incursions by competitors that could destroy them[100]. It is also needed in order to provide network benefits of simple area-wide fares and comprehensive information. In a spirit of devolving power to local level, the local authority is the best-placed organisation to decide whether to take advantage of such powers, in its particular local circumstances, and how precisely to exercise them – including whether to retain the option of tendering competitively for some non-commercial services in outlying areas (as in Germany and Austria).

Present rules in the UK forbid a transport authority from awarding bids without competition except for emergency service provision or contracts that fall below a *de minimis* threshold. However, European law, as specified in EU Regulation 1370/2007 Article 5.2 allows that:

> *"Any competent authority, whether or not it is an individual authority or a group of authorities providing integrated public passenger transport services, may decide to provide public passenger transport services itself or to award public service contracts directly to a legally distinct entity over which the competent local authority, or in the case of a group of authorities at least one competent authority, exercises control similar to that exercised over its own departments."*

In simple terms this means that if a local authority owns a bus company it can use it to provide bus services within its area of responsibility without having to go through a process of competitive tender. Further clauses to the same Article stipulate that 100% ownership is not necessary, and that a municipal company that is directly awarded contracts without competition should not participate in competitive tenders in other areas, although it may operate outlying routes into neighbouring areas as necessary to complete the network.

**CONCLUSION 8:**

- Laws in Britain should be changed to allow direct award of all or part of a bus network to a municipal bus operator, in line with EU law.

### 5.5.3 Potential cost savings from municipal operation as compared to franchising

The figures and examples presented in Section 3.4 showed there is likely to be potential for cost savings from municipal operation. Instead of being used to pay dividends to shareholders, the profit from commercially-viable routes could be used to support non-commercial routes, reducing the amount of subsidy required from the local transport authority. There would be patronage and revenue increases as a result of unified network design and simplified ticketing; and there would be efficiencies in delivery of those services that are currently tendered. The total

[100] Municipal operators are inherently local to their 'home' areas and, unlike transnational transport groups, cannot afford to lose their local operations. A municipal company could be wiped out by a single loss-leader bid to take over its most profitable routes.

financial gains available from these different sources are summarised in Table 5.4 and explained in detail in Table 5.5.

We estimate that if all deregulated areas switched to municipal operation, there would be financial gains of the order of £412 million in England excluding London; or of the order of £506 million in Britain excluding London. These savings are substantially greater than the cuts to funding for bus services since 2010, so would allow both for restoration of services that have been cut, and significant additional investment in new bus services.

**Table 5.4: Financial gains from municipal operation outside London, compared with recent cuts**

| | **Annual gain (cost) (£ million)** | |
|---|---|---|
| | Britain (excluding London) | England (excluding London) |
| **FINANCIAL GAINS FROM MUNICIPAL OPERATION** | | |
| Retention of excess profit+ | 217 | 178 |
| Unified network design / simplified ticketing | 168 | 136 |
| Efficiencies in provision of currently tendered services | 118 | 95 |
| Lower profit leakage on reinstated services* | 3 | 3 |
| **TOTAL GAINS** | 506 | 412 |
| **RESTORATION OF FUNDING CUTS#** | | |
| Cuts to local authority support for buses since 2010 | (76) | (73) |
| Cuts to BSOG since 2010 | (113) | (72) |

+ Based on annual average dividend payments over a ten year period, for Britain, as per Table 3.1 in Chapter 3; figure for England calculated pro rata, in proportion to fare revenues.
* This saving would only be relevant if supported services that have been cut since 2010 were reinstated.
# Period covered is 2010/11 to 2013/14; data from DfT 2015 *Bus Statistics Table 0502b* and Scottish Government 2015 *Scottish Transport Statistics 2014* Table 2.9. Figures for BSOG reflect a combination of a 20% cut in the reimbursement rate in 2012, and changes to operated kilometres (and therefore amount of reimbursement).

**Table 5.5: Sources of potential savings from municipal operation outside London**

| | |
|---|---|
| **Retention of excess profit** | Section 3.1 showed that bus companies paid dividends of £217 million in Britain excluding London. Figure for England excluding London is calculated in proportion to bus company fare revenues. |
| **Patronage and revenue increases from unified network design, simplified ticketing and marketing** | If the network were designed as a whole, with integrated ticketing and unified marketing, there would be patronage and revenue increases. We assume that these would be the same as if the whole network were managed through franchises, and use the same evidence summarised in Table 5.2. |
| **Efficiencies in providing coverage to the portion of the bus network that is tendered at present** | Under municipal operation, as for franchising, the bus network can be designed as a whole. This enables more efficient procurement than the current reactive approach to procuring tendered services. However, there is the potential for greater efficiency savings than with franchising, because of the ability of a municipal operator to respond flexibly to changing circumstances (i.e. the local transport authority does not become 'locked in' to an inefficient contract when conditions change). We assume 'whole network designing' could reduce the present cost of tendered services by 20% (the same as for franchising, Table 5.2), and that 'flexibility of response' could reduce costs by a further 10%. This gives a saving of £95 million in England outside London. |
| **Lower profit leakage on reinstated services** | Savings arising from the factors listed above would enable local authorities to reinstate supported bus services that have been cut in the last five years. The cost of reinstatement would be lower than the original cost, because dividend payments would no longer be made. We assume that profit extraction from tendered services under the current deregulated regime outside London is similar to profit extraction from tendered services in London (i.e. 3.8% of turnover from the services concerned). Applying this percentage to the £73 million contract value of services cut in England outside London since 2010, savings of £3 million would be predicted. |

Switching from deregulation to municipal operation would provide greater cost savings for local transport authorities than switching to franchising (comparing Table 5.4 with Table 5.1). This is because:

- There is no leakage in the form of dividend payments.
- Transaction costs (a major disbenefit of outsourcing) are avoided. There is no need for multiple contractual interfaces between the 'guiding mind' of the contracting authority and the franchisees, and so time and money is not wasted in running and bidding in franchising competitions.
- The municipal operator can provide a large part of the 'guiding mind' function that is needed to ensure the network works as a unified whole. Experience from

day-to-day operations can be used to inform strategic planning and development of the network. In contrast, in franchising systems, the contracting authority takes on the guiding mind functions, and operators are constrained to formulating tenders and then working within those specifications. This tends to create a 'ceiling' that blocks deployment of practitioners' knowledge and experience[101].

- When conditions change, the response can be more flexible and rapid, since service alterations are not hampered by a web of contractual legalities.

**CONCLUSION 9:**

- Savings from municipal operation would be greater than from franchising.

### 5.5.4 How could the present efficiency of municipal operators be retained under direct award?

The municipal bus operators that have survived deregulation have achieved cost efficiencies comparable to the commercial operators they have had to compete against, in some cases through head-to-head bus wars with the biggest bus groups[102]. By the 'survival of the fittest' principle, it is likely that they represent the most efficient of the previous municipal operators. They also win a disproportionate share of the UK Bus Awards[103], an award which emphasises 'excellent customer service', indicating that as well as being competitive they manage to achieve higher quality. This tends to corroborate the theory that zero or low dividend payments should allow scope to add quality whilst retaining competitiveness.

Although dividend payments and competition costs can be avoided by municipally owned bus operations, competition theory would say that direct award of contracts without exposure to market forces will result in inefficient behaviour. On this basis the Competition Commission Inquiry investigated use of direct awards within the British bus market. It looked at whether existing *de minimis* provisions allowing local authorities to make direct awards for some tendered services might be causing higher tender prices. It concluded that 'we have no strong evidence that this happens on any significant scale'[clvii]. Evidence from Europe similarly suggests that municipal operation can be highly efficient: as noted above, evaluation of Vienna's municipal operator concluded that there was no evidence that sharper competition was needed to improve efficiency (Box 5.1).

Nevertheless, there is a fear that publicly-owned operators might over time become less efficient. Some of our expert interviewees, and some respondents to the ATCO survey, were critical of poor management of costs by the National Bus Company before it was privatised. There might also be a concern that a small municipal operator would lack the expertise, or the buying power, of a large international operator.

[101] For example, one of our expert interviewees criticised Transport for London's inability to receive operator's suggestions for network improvements that would raise efficiency and save money.
[102] For example the bus war between First Group and Lothian Buses in Edinburgh.
[103] In the past three years a municipal operator has won UK Bus Operator of the Year twice with another municipal operator runner up in all three years.

Drawing on experience from successful municipal operators in Europe and in Britain, there are several key factors which can help ensure that a municipal operator is as at least as efficient as a private operator:

- An arms-length relationship between the contracting authority and the municipal operator, in which the operator has sole responsibility for making operational decisions, and for effective cost control, without interference in day-to-day matters by the contracting authority.
- Ability for the owning municipality to set strategic direction, with the local transport authority exercising effective strategic control through a majority shareholding and a deciding vote on the board.
- A financing agreement between the contracting authority and the operator that sets out clear objectives for the provision of the service, and clear operational standards. For the city of Vienna, there is a multi-year high level contract that specifies high level objectives required of its transport company, but financial support to the company is renegotiated annually.
- An investment strategy that supports innovation in order to increase efficiency in the medium-term (Reading Buses provides an example of this: see Box 5.2).
- Periodic benchmarking against other cities.
- Joint purchasing alliances with other local transport authorities and operators. In France, Agir, the association for independent management of public transport networks, has established an organisation for joint procurement of buses by municipalities.

**Box 5.2: Case study of municipal innovation leading to efficiency savings**

Reading Buses has invested substantial sums over the last five years in gas-powered buses. It has also invested in its own £1 million fuelling facility. This brings environmental benefits over diesel, all the more so since Reading Buses buys certified carbon-neutral biogas. It also reduces costs: biogas costs per mile are about half those of diesel, and the company has started selling its gas to taxi firms in Reading as well as using it for its own buses. By 2014, Reading Buses' gas-powered fleet numbered 34 buses, in addition to 31 electric hybrid buses. In comparison with commercial operators, this is a much higher proportion of its total fleet.

### 5.5.5 How should a municipal operator be governed?

Although municipal bus companies punch above their weight in the UK Bus Awards, there are indications that the current governance models of municipals are not ideal. All municipal bus operations were required by the Transport Act 1985 to become companies limited by guarantee. The Act additionally stipulated conditions intended to ensure that municipal bus companies operate at arms-length from their owning authorities, with powers for the Secretary of State for Transport to stipulate the maximum allowable proportion of council representatives on the company board[clviii].

Local authorities nevertheless appear to have established differing levels of strategic control over their bus companies, with corresponding variability in how well these companies have achieved the local transport policy objectives of their owning councils. Reading Council felt that they were able to exercise effective strategic control over Reading Buses, despite not having a majority on the company board. There was also a good working relationship between bus company staff and council staff on day-to-day matters:

*"Councillors approve the overall transport policy which officers then implement both on the ground and in dealings with other commercial companies, including the wholly owned bus company Reading Buses. Council officers and bus company staff have discussions that emphasise our joint interest in Reading's prosperity and vitality: generally what's good for the bus service has been found to be good for the town - so we can all achieve the aims in the Local Transport Plan. Discussions will range from what's happening at a set of traffic lights, what road works are coming up, to service changes and events."*

[Expert interviewee]

In Nottingham, the city council has a majority stake in its municipal operator, Nottingham City Transport, with multinational transport operator Transdev holding 18%. The city council has struggled in its relationship with NCT, notably over issues related to costs of tendered services, and consequently had gone to the extent of setting up an independent not-for-profit operation:

*"We had £3.5 million of tenders, virtually all with NCT. We had to find a cheaper way of delivering these. We took the route of spending a huge amount of time boosting up community transport, as a not-for-profit organisation, running them out of our own council bases – bus stations and park and ride sites that we already owned. Then we did the electric bus project to drive the cost of the vehicles and the fuel down."*

[Expert interviewee]

These examples illustrate the tension between giving a municipally-owned operator managerial freedom to focus on operational efficiencies, and being able to exercise strategic control to ensure that public transport policy objectives are met, as far as that is possible within the prevailing funding and cost environment. There is consensus that some form of arms-length relationship is appropriate, but how long the arm should be is open to question. Given the levels of public subsidy for bus services, the final call must lie with the publicly accountable elected members of the local transport authority. This would also be a requirement of European law if a municipal bus operator were directly awarded a 'whole network contract' to operate local bus services: as noted above, European Directive 1370/2007 requires that the local transport authority *'exercises control similar to that exercised over its own departments'* over any municipal operator that is awarded a contract directly. According to Article 5.2a, 'effective control' is determined by several factors:

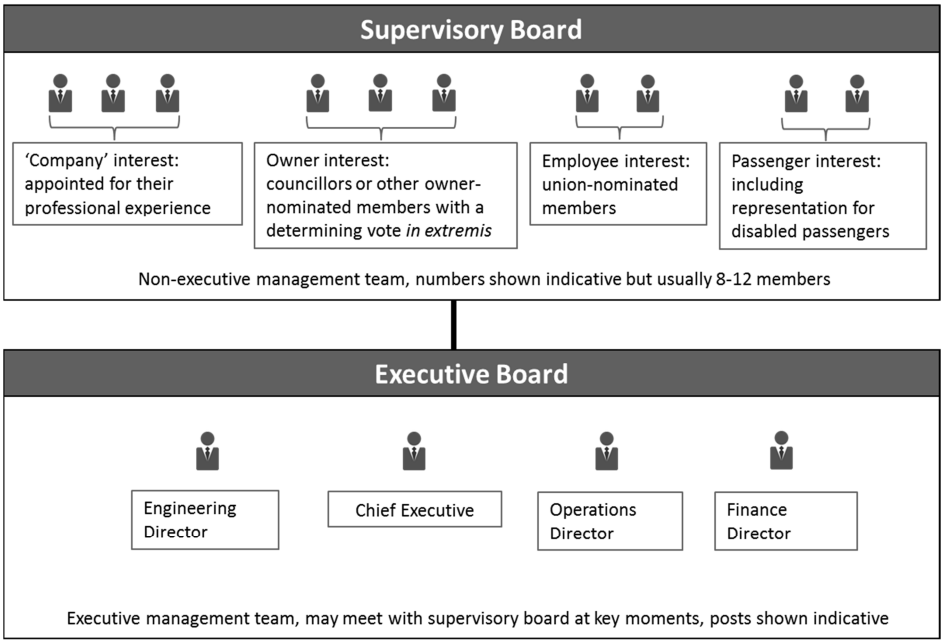
*"For the purposes of determining whether the competent local authority exercises control, factors such as the degree of representation on administrative, management or supervisory bodies, specifications relating thereto in the articles of association, ownership, effective influence and control over strategic decisions and individual management decisions shall be taken into consideration. In accordance with Community law, 100% ownership by the competent public authority…is not a mandatory requirement…provided that there is a dominant public influence and that control can be established on the basis of other criteria."*

Some of the governance structures of municipal bus companies in continental Europe appear to offer a better balance than the present British structures. In Germany and Austria the normal corporate model distinguishes between a supervisory board and an executive board that meets more frequently. This approach gives a structural basis to the arms-length relationship with the company

owners. It also facilitates input from other groups with a legitimate interest in the bus company and the services it provides, which is why this type of structure is similar to the governance structures of third sector bodies in Britain that represent a range of interests[104]. The supervisory board is where strategic direction is set, by non-executive directors who represent the owning public authority, bring specific professional expertise, and represent employees (a legal requirement for larger companies in Germany under its co-determination laws).

A company structure of this type, modified to suit the British situation and compliant with EU law for direct award of contracts, is shown in Figure 5.7. Some municipal bus companies in the UK already have board level staff representation and this could be maintained in a supervisory board structure. Non-executive directors appointed for their professional experience are already the norm. Council-nominated non-executive directors are also the norm but at present do not hold a deciding vote. To provide the level of local transport authority control required to allow direct award of contracts under European Directive 1370/2007, the company articles should ensure that council-nominated directors hold a determining vote, although it might usefully also be stipulated that this power should only be exerted under exceptional circumstances.

**Figure 5.7: An EU-compliant publicly accountable municipal bus company structure**




Although not a feature of European supervisory boards, it would be valuable for one non-executive director to be appointed as a passenger representative. If possible, this person should be a representative of disabled bus users, or if necessary a second passenger representative should represent disabled passengers. People with disabilities that have served on the board of Transport for London have played a valuable role in driving continual improvements for disabled travellers in London[105].

[104] For example the split between trustee bodies of large charities and their executive management teams.
[105] A disabled person has served on the board of Transport for London since the organisation was formed and there have also been specialist advisers to the board on disability issues. Multiple paralympic champion Tanni Grey-Thompson presently serves on the board (https://tfl.gov.uk/corporate/about-tfl/how-we-work/corporate-governance/board-members#on-this-page-9, accessed 22.09.2015).

Quite apart from this specialist perspective, it should be recognised that many ordinary bus users have important insights that could usefully be heard on the boards of bus companies.

### 5.5.6 Relationship between staff and management in municipal companies

Management structures and procedures that boost the feeling of staff 'ownership' (in its looser sense) within a publicly owned firm can create significant added value. Commercial firms have an uphill struggle to motivate their staff to go the extra mile for the greater profit of unseen private shareholders. Publicly owned firms have a competitive edge in staff motivation if they can encourage an ethos that the work is worthwhile because it is providing a public service.

In Germany, it is commonplace for managers and boards to request proposals from worker representatives for improvements to operations, on the basis that there is a shared interest in creating a successful company that continually improves its product. This approach is backed by sharing management information on company performance, including financial data. Employee input is facilitated by workers' committees that operate in tandem with the trades unions.

This system has much to recommend it in comparison with Britain's more confrontational approach to industrial relations. Arguably it becomes especially valuable in publicly owned companies providing public services where the public suffer loss of the service if there is industrial action. These kinds of structures would be useful additions statutory joint industrial councils with duties to set bus sector pay and conditions, as recommended in Section 5.4.3.

**CONCLUSION 10:**

- Municipal bus company structures should change, to legally permit direct award of whole-network contracts and to create appropriate owner-operator relationships.
- Municipal bus companies should be subject to ultimate control by their owning authorities but with 'arms-length' management freedoms.
- A supervisory board structure is one way this could be achieved within EU law.
- A supervisory board also facilitates representation of bus company staff and bus passengers.

### 5.5.7 How could municipal bus operations be expanded?

Local transport authorities that want their bus services run by a muncipally owned bus company would have several options (once UK legislation has been changed to allow direct award of part or all of a bus network to a municipally owned company to the exclusion of other operators, as permitted by European law). The options would be:

- Set up a new municipal bus company (as many French authorities have)
- Buy an existing commercial bus operator
- Team up with a local authority that already owns a municipal bus company

Which option is most economical will depend on local circumstances, including factors such as: availability of land for new bus depots; relative attractiveness of

financing options for purchase of vehicles (or whole bus companies) compared with rental of vehicles; quality of existing local operators and their willingness to sell at a reasonable price; and whether a municipal operator already operates in a neighbouring local authority.

It is likely that the transport authorities considering setting up a municipal will already have shifted to a franchising system of bus governance. Under these circumstances, the administrative process for transfer of operations to a municipal is simply a case of letting some or all of the franchise contracts lapse.

European legislation (Regulation 1370/2007 as cited in Section 5.5.2) allows that local authorities may join together so that all of them can access the services of a municipal operator that is owned by one of them, or which they own jointly. This provides a mechanism for some local authorities that do not presently own bus companies to join forces with nearby local transport authorities that do. Local control is important for accountability to local people and to focus on local transport requirements, so it would be advisable for agreements with other local authorities to enable ownership to be shared. Thus, if a local transport authority were to wish to directly award some of its services to a municipal operation owned by another authority, it might be appropriate to acquire ownership of a portion of the company equivalent to the share of its operations that the new services represent.

This process could be enacted gradually on a route-by-route basis and could be achieved with a low rate of expenditure. If the routes in question are due for new buses there could be a saving through purchasing them on finance at rates of interest available to public authorities rather than at the rates paid by commercial bus companies. Purchase of new vehicles for the municipal company would add to its assets and could be taken as payment for a share of ownership. In principle, where expansion is seen as being in the interests of both parties, a share of ownership could be given without charge to the transport authority concerned, in return for it covering any upfront costs associated with the expansion.

The role of national government will be to pass enabling legislation that clears the way for local authorities to easily set up municipal bus companies. Thereafter, the appropriate level of governance of bus operations is the local transport authority. None of our expert interviewees regarded the former National Bus Company as a model to emulate. In contrast, the remaining municipally owned companies were seen as doing a good job efficiently and in some cases being strongly innovative. If public sector bus ownership expands it is the remaining successful municipals that provide the model.

**CONCLUSION 11:**

- Once legal hurdles are removed, local transport authorities would have several ways to establish municipal bus company operations. For local authorities close to existing municipal bus networks inter-authority collaboration could offer an easy and rapid option to gain the benefits of municipal bus company operation.

## 5.6 Bus governance: raising service standards

Section 5.2 identified the need to place duties on local transport authorities ‘to improve bus services and increase bus use’. Here we consider whether there is also a need for more specific standards for network coverage and service design, to ensure that local transport authorities act on these duties. Under a reformed system of bus governance such standard setting becomes feasible because local transport authorities would be equipped with the powers to achieve them.

We discuss three different possible approaches to network coverage standards: functional standards; aspirational standards; and minimum standards. We also outline a possible approach to service design standards.

### 5.6.1 Network coverage standards

**Functional network coverage standards**

One approach would be to put in place national 'functional standards' that stipulate a set of functions that public transport should enable people to achieve. These standards would extend the existing obligation to provide young people with free transport to school, placing an obligation on local transport authorities to provide the adult population with affordable public transport to training, education, work and key facilities such as shops and hospitals.

As with the school obligation, local transport authorities would have freedom to choose how to achieve their public transport obligations. This would be a relatively hands-off approach: it would lay out expectations, but local authorities would decide how best to fulfil them.

The current school obligation only applies to nearest qualifying schools, above threshold walking distances along safe walking routes. In the same way, a national public transport obligation for other trip functions would also need to specify qualifying destinations and threshold distances (perhaps extending beyond safe walking routes and distances to include safe cycling routes). As with school travel, people with disabilities would not be subject to the exemptions. This 'functional' approach could probably only be applied to employment, training, education and amenity sites above a minimum size threshold, and isolated rural dwellings would probably need to be disqualified.

There would need to be a transitional period to enable local transport authorities to work towards the required levels of public transport accessibility. Obligations of this kind would also need to be backed up by powers within planning law for local authorities to refuse permission for new development in places where the public transport obligation could not be met. A potential issue with this approach is that it is formulated in relation to a resident population and therefore may omit destinations that are important for visitors. It would be reasonable to have an obligation to enable the local population to reach major local leisure destinations, but for destinations mostly used by visitors the idea of an obligation feels inappropriate.

**Aspirational and minimum network coverage standards**

A different approach would be to develop 'network coverage standards' for different types of geographical area. These would provide a benchmark against which local communities could judge whether their local transport authority was providing a good standard of bus service, relative to other similar areas, and would help local communities hold transport authorities to account. This approach could be either 'push' or 'pull': it could set aspirational target standards backed by encouragement ('pull'), or minimum standards underpinned by penalties ('push'). Approaches towards both ends of this spectrum can be seen in other European countries.

Box 5.3 summarises the network coverage standards that have been adopted in Zürich Canton in Switzerland (roughly equivalent in population to a PTE area in Britain). The standards in Zürich Canton are set out in a regulation which is just five pages in length. It is easy to understand, and provides a simple framework with some flexibility. It represents an aspiration for what the network *should* be like, albeit one which is impressively close to being achieved. This approach could be said to lie at the 'pull' end of the spectrum, despite its foundation upon legal regulations.

**Box 5.3: Zürich Canton**

**Geography:** The population of the Canton is 1.3 million (comparable to the population covered by South Yorkshire PTE). It includes the cities of Zürich and Winterthur, plus a number of smaller towns and suburban / semi-rural areas.

**Regulations**

Regulations specifying the service levels to be met in Zürich Canton were adopted in 1988, and still form the basis for regional transport planning. The regulations appear on the website of the regional transport body ZVV, so any local resident is able to see how well their service matches up to the standard set out in the regulations.

The regulations specify that the operating period for services should be between 6am and midnight. Operating periods on individual routes can be extended or shortened depending on demand; to ensure connections; or for operational reasons.

Three levels of service (Angebotsbereichen) are defined:

- The most basic service (level 1 or Grundversorgung) is hourly, but with the option of reduced frequency at periods of low demand, so that the service can be reduced to 12 buses per day in each direction.
- Service level 2 is half-hourly, but with options of more frequent services to ensure connections, or less frequent hourly services at periods of low demand.
- Service level 3 is every 15 minutes, but with the option of more frequent services (every 10, 7.5 or 6 minutes, or less) where there is sufficient demand, or less frequent half-hourly services at off-peak periods.

The basic service should be provided for all settlements above 300 people (although in practice this is not fully achieved). Service level 2 is expected on all corridors where flows from multiple settlements combine to give strong demand. Service level 3 applies to large dense settlements.

**Effect of the regulations**

In practice, almost all services operate from early until late (6am to midnight) so that even a user living at the periphery of the network can finish their journey home. Connections are given high importance, with buses arriving before trains and departing after, and with all types of service running to clockface timetables (i.e. repeating hourly) on intervals that divide exactly into each other to maximise the potential for connections.

Although the regulations set clear standards, they are treated as an aim subject to funding, rather than as a legal right for every settlement. There is allowance for lower frequencies, or to stop running services earlier if demand is too low, exemptions applied to some places and an option for substitution by other more economical forms of transport if scheduled services appear impractical (although Zürich Canton has decided demand-responsive-transport is not in general a useful option within its network). The transport authority's strategy document identifies 56 settlements that were unserved by public transport despite surpassing the threshold of 300 people above which the basic service should be supplied. Nevertheless, the final result is extremely good coverage even for the most rural parts of the Canton.

Source: Petersen 2009 *Network planning, Swiss style: making public transport work in semi-rural areas*, http://atrf.info/papers/2009/2009_petersen.pdf, accessed 19.08.2015, and Regulation 740.3 Verordnung über das Angebot im öffentlichen Personenverkehr (Angebotsverordnung) 1988 http://www.zvv.ch/zvv-assets/ueber-uns/gesetze/740.3.pdf, accessed 19.08.2015

Box 5.4 summarises the standards set out in the franchise specification for part of the province of Friesland in the Netherlands (similar in population to a large English county). The franchise specification for south-east Friesland is considerably longer than the Zürich Canton standards (more than 50 pages plus numerous annexes) and describes the minimum standards that must be met by the bus operator. This approach could be seen as lying at the 'push' end of the spectrum.

**Box 5.4: Friesland**

**Geography:** The population of the province is 646,000 (comparable to the population of Norfolk). It includes the main towns of Leeuwarden, Drachten, Sneek and Heerenveen plus a number of smaller towns and villages.

**Franchise specification**

The province is currently letting a franchise for bus services in south-east Friesland and offshore islands. It will run from 2016 for four or six years, after which a single franchise covering the whole province (including the north and west) will be adopted.

A detailed 50-page 'Statement of Requirements' for the franchise for south-east Friesland and the islands has been published. This defines minimum service periods and frequencies for four different types of service:

- 'COV Maatwerk' (Customised collective public transport) must have at least an hourly service between 6-9am and 2.30-6.30pm during the week.
- 'COV' (Collective public transport) must have at least an hourly service between 6am and 6.30pm during the week; and an hourly service between 7.30am and 6.30pm on Saturdays.
- 'ACOV' (Attractive collective public transport) must have at least one service every 30 minutes on weekdays from 6am to 6.30pm; an hourly weekday evening service between 6.30pm and 11.30pm; an hourly service on Saturdays between 7.30am and 11.30pm and on Sundays between 9am and 11.30pm.
- 'HOV' (Quality public transport) for three corridors connecting Drachten to Heerenveen, Leeuwarden and Oosterwolde. The minimum specification for Drachten – Heerenveen is as for ACOV; a lower minimum service is specified for the other corridors.

The type of service to be received by each settlement within the franchise area (including settlements with less than 250 people) is specified in an Annex.

The franchise specification includes numerous other requirements, including:

- The operator can only make significant timetable changes once a year, on the same date as changes to the rail timetable.
- When delays mean that a timetabled bus connection is missed, and the next bus is more than 30 minutes later, the operator must provide alternative transport.

**Effect of the specification**

It is too early to tell what the outcome of the south-east Friesland franchise will be. However, the intention appears to be for almost all settlements with a population over about 500 to have at least a 'COV Maatwerk' service i.e. a service suitable for weekday commuting and shopping trips.

Source: Friesland Province 2015 *Aanbesteding Openbaar vervoer Concessie ZOWAD Deel C – Programma van Eisen* http://www.fryslan.frl/aanbesteding-ov, accessed 19.08.2015

In both Zürich Canton and Friesland, service standards are set by the regional transport authority, which has complete discretion to set the standards they wish. Both examples have a two stage approach: 1) *definition* of service standard packages 2) *allocation of places* to service standard packages. Britain does neither of these things at present.

One of our expert interviewees suggested detailed proposals for how local transport authorities should have an obligation in law to ensure public transport is provided for travel between settlements and local centres that provide employment, education, shops, health facilities and amenities. His approach was to define minimum network coverage standards according to geography, along the following lines:

> ***"Remote villages:*** *Peak-time buses to the regional centre or market town to fit work and school hours, with school buses open to the general public. Additional buses timed for shopping journeys at least two days a week. All positioning workings required to get buses into place to run these services open to the public. Demand-responsive transport for settlements where scheduled services are unfeasible.*
>
> ***Small villages that can be served by bus routes linking towns:*** *Two-hourly buses during the day six days per week to the regional centre. Some evening buses permitting day trips and access to entertainment. Some Sunday services including evening services to enable return from weekends away. Guaranteed connections between incoming trains to the regional centre and the last buses.*
>
> ***Large villages, substantial new developments, small towns:*** *Hourly buses to the regional centre from early morning to after the evening peak six days a week. Two-hourly buses during evenings and on Sundays. All significant new developments should have this level of service to avoid development of car-based travel habits from the outset. Last bus to make guaranteed connection with incoming train for settlements not served by rail.*
>
> ***Suburbs of large towns and cities:*** *Half-hourly buses daytimes 6 days a week. Hourly buses evenings and Sundays, including Sunday evenings. Last bus to make guaranteed connection with incoming train for neighbourhoods not served by rail. Orbital bus routes to link to jobs, facilities and entertainment at other suburban centres in addition to radial routes to the city centre.*
>
> ***Dense urban areas or high demand corridors:*** *Turn-up-and-go bus frequencies."*
>
> [Expert interviewee]

For many places, these standards would represent a step up, and would be both a suitable minimum and an aspirational standard. However, there would be other places where present service levels are higher, with good justification; here the standards would hold no aspirational value and would open up a risk of service degradation.

We would therefore advocate a somewhat different approach, involving both national and local government, in which:

- National governments in England, Wales and Scotland define a set of service standard packages, including both minimum and aspirational standards.
- Local transport authorities draw up publicly-available lists of the settlements they believe should be eligible for each service package, accompanied by a justification based on a set of geographical variables.

- Local transport authorities periodically carry out benchmarking exercises to compare themselves with other authorities, and national government periodically audits the performance of local authorities overall against the national service standards.

To facilitate benchmarking, the geographical variables (e.g. settlement population size, distance to nearest regional centre, size of the nearest regional centre, proximity to corridors carrying large flows of traffic) should be a common national list. However, there should be recognition of the need for local latitude and application of local knowledge in applying these variables. No single geographical variable is adequate to define a threshold for a particular service level. So, for example, a community with a population of 300 people that is two miles from a large regional centre can reasonably expect a much better service than a community of similar size twenty miles from a similar sized town.

Because this approach starts by consideration of settlements it risks omitting certain types of destination, such as out-of-town business parks or recreational and visitor destinations that are not in town centres. The service package approach should be extended to these types of destination, but should be combined with stronger powers for local authorities to refuse planning permissions for out-of-town developments which it judges cannot feasibly be served by public transport.

### 5.6.2 Service design standards

Alongside network coverage standards, it would also be possible to define model 'service design standards' for vehicle quality, information provision, waiting facilities, ticketing and other matters, so that local transport authorities taking over responsibility for the bus network had a resource to draw upon describing what a good service looks like in all these respects.

'Quality incentive contracts' similar to those used by Transport for London would provide an effective way for local transport authorities to work with operators to progressively improve performance. Quality incentive contracts offer bonus payments for performance that is better than an agreed standard, and deductions for performance that is worse than the standard. TfL quality incentive contracts cover reliability; driving standards; customer service; and vehicle cleanliness and presentation[clix]. In addition to application in areas where bus services were franchised, this type of mechanism might usefully be applied by local transport authorities with municipal operators.

Quality incentive contracts would replace the current responsibility of the Traffic Commissioners to fine bus operators who fail to meet basic standards for bus punctuality. Local transport authorities would be much better placed to enforce these standards, which are in practice only very rarely enforced by the Traffic Commissioners at present.

### 5.6.3 Role of standards in ensuring good public services

Taken together, network coverage standards and service design standards would help ensure that local transport authorities acted on their broad duties to 'to improve bus services and increase bus use'. They would enable local people to know what they were entitled to expect from their local authority, and would ensure that local transport authorities that had previously attached low importance to public transport did not take on new powers over buses and then fail to apply them effectively. Quality incentive contracts would provide an effective means for local transport authorities to manage contracts with operators, ensuring that services were well run. The overall effect of this approach to raising standards would be to ensure that local

communities had the best possible bus services for the available funding, and that bus users in similar types of location were not subject to a postcode lottery in terms of the services they received.

**CONCLUSION 12:**

- National government and local transport authorities should develop network coverage standards.
- Contractual arrangements with operators should take the form of quality-incentive contracts and local transport authorities should take over the Traffic Commissioners' powers for licensing and enforcement of service standards.

## 5.7 Bus governance: structures

Current structures of bus governance have been reviewed in a study by IPPR[clx] that recommended establishing 'Total Transport Authorities'. It proposed that these would differ in two main respects from existing local transport authorities: they would have broader geographical extent to match natural and economic travel areas; and they would have responsibility for all forms of local transport, bringing together road transport presently run by social services, education and health services as well as encompassing other modes of transport.

In this section we concentrate on points additional to the *Total Transport Authorities* report and suggestions arising from our expert interviewees.

We agree that there is potential to achieve integration and efficiency benefits from bringing public transport services that are presently separately funded and managed under the control of a single authority. We support the conclusion that such Total Transport Authorities should be responsible for all forms of road passenger transport, plus local tram, light rail and metro services. We also agree they should have substantial power over national rail services in their areas so they can integrate these with buses and other modes. There is, however, a balance to be struck between local powers over rail and unified design of the national railway network. Greater powers for local transport authorities over rail services must complement a national 'guiding mind' for the entire railway with powers to ensure that the national rail network functions as a unified whole[106].

Arguments for regionalised governance of transport have been raised many times in the past, but have tended to founder. Partly this has happened because there are legitimate inputs to transport governance at multiple levels. The result is a confused mish-mash of arrangements at local authority levels, sub-regional levels, regional levels and national level (as discussed in Section 4.2.12) that appears to offer much room for improvement.

Examples from Europe seem to indicate that public transport networks can benefit from transport authorities that operate at a larger geographical scale than most British local authorities, with the possible exception of some counties that are very large and align with natural boundaries to bus networks. We believe that the policy aim should be to achieve transport governance structures that have regional span, whilst retaining sufficient influence for local authorities to ensure the regional

[106] The absence of a 'guiding mind' function in Britain's privatised railway and structures to achieve rail governance devolution within unified strategic planning for the railway are discussed further in *Rebuilding Rail* and *Options for Regional Rail* (Transport for Quality of Life 2012, 2013).

transport network meets their priorities. Continental 'Verkehrsverbunden' (transport associations) appear to deliver impressive results and offer models from which the UK could learn. Box 5.5 describes the Munich Verkehrsverbund and what it achieves for travellers.

**Box 5.5: Munchner Verkehrsverbund (MVV) – Munich Transport Association**

**Composition of MVV:**

- City of Munich
- Eight surrounding districts
- State of Bavaria
- MVG (Munchner Verkehrsgesellschaft), the municipally owned transport operator, operating underground trains, trams and buses within the city
- Over 40 other transport operators running trains and buses in the region around the city, some publicly owned, some privately owned

MVV is constituted as a limited company (GmbH), owned by the city, state and district authorities. The area (and population) covered by MVV is somewhat larger than the combined area of Nottinghamshire, Nottingham, Derbyshire and Derby.

**What MVV does:**

MVV is charged with duties to manage public transport operations in Munich and the surrounding area. It designs and develops the network, constructs the timetables, contracts bus services for parts of the network where these are out-sourced, creates a unified multimodal fare system, provides passenger timetable information on the web and elsewhere, undertakes marketing and market research, provides online ticket sales facilities, and distributes ticket revenues. It leads on creating a vision for the future of public transport in and around Munich. Its organisational goals include:

- Making use of public transport as attractive and easy as possible
- Ensuring a uniform user interface and brand identity for Munich public transport
- Catalysing technical and structural innovation in the public transport system
- Developing a vision of the future system to meet Munich's increasing needs

**What MVV achieves for travellers:**

The existence of the transport association has enabled Munich to create an integrated system where passengers can use one MVV ticket on all the available forms of public transport: regional trains, suburban trains (S-Bahn), underground trains (U-Bahn), trams and buses. It works to the unifying principle "One network, one timetable, one ticket".

MVV is founded on the recognition that its management role creates public transport that is far more attractive to users than the uncoordinated alternative:

*"Once you've become used to a transport association, you will no longer want to have to buy a new ticket every time you change modes of transport, or go through the hassle of looking through different material to try and find a route, only to perhaps find out that the connections don't match."*

Sources: MVV 2013 *Munchner Verkehrs-und Tarifverbund GmbH*

One expert interviewee who had overseen bus operations from within bus operators and from within local authorities suggested subdivisions of England's regions that he believed would form more sensible areas for bus governance than the present boundaries of local transport responsibilities:

*"[Transfer] county and unitary responsibilities for public transport to about 15 subregional groups of English authorities. The Standard Regions are too large and have boundary peculiarities (eg Watford being in the East of England). It is suggested that authorities be grouped for transport purposes (eg. Norfolk, Suffolk and Cambridgeshire; Devon, Cornwall, Plymouth and Torbay) ... Such grouped authorities (about 15 subregional groups in total) would [also] be of a size more suited to dealing with local rail service issues."*

[Expert interviewee]

This approach would fit with moves to increase the number of combined authorities, groups of local authorities that take shared responsibility for a range of strategic regional issues. The present combined authority areas and PTEs have proved a valuable basis for transport authority boundaries. Some of these could logically be expanded to city-regions.

Boundaries of transport authorities should seek to align with travel to work boundaries and areas of shared economic interest, which tend to match to some degree. They should not overlap (as happens with some Local Enterprise Partnerships). It is desirable for local transport authorities to mesh with regional structures for rail governance, but in some cases several authorities that are logical combinations for bus governance purposes may fit within a single logical governance region for rail.

**CONCLUSION 13:**

- Local transport authorities should become 'Total Transport Authorities' responsible for all forms of road passenger transport (and other local public transport).
- Total Transport Authorities should operate at a sub-regional level rather than the level of individual local authorities (except where these already have sub-regional span).

## 5.8 Finances

In many areas of Britain, funding for buses is insufficient to provide even a minimal network of services. Even in areas with stronger bus networks, funding to support services that fill gaps in the commercially-provided network is under pressure. Britain's bus networks require better funding so they can achieve major improvements. This in turn requires radical change to how funding for bus services is raised and delivered.

In order to justify further public funding it is necessary to address the financial inefficiencies described in earlier sections of this report. The case for greater funding is presently undermined by bus governance that loses the bus network valuable income from its prime routes as commercial profit, and then pays extra to support socially necessary routes, losing further money to commercial operators' profits in the process.

Once a cost-efficient governance system is in place, additional sources of public funding for buses can be considered. There is a strong case that transport authorities should have far greater powers to raise funds locally.

Transport authorities in some other countries have much more extensive powers to raise income locally for their public transport networks. The evidence is that when such financing powers are available, the effect on public transport services can be transformative.

French local transport authorities have used a local payroll tax, the Versement Transport, as a basis to make major improvements to their public transport networks. It has proved a highly effective mechanism to achieve improved public transport infrastructure and services. Features that are key to its success are:

- It is levied on businesses in recognition of how public transport benefits the local economy (with exemptions for small businesses)
- It provides a relatively stable income stream (unlike some types of property tax)
- It is levied as part of a deal that public transport will improve as a result
- It is dedicated to public transport (and some other forms of sustainable transport)
- It is locally controlled

Box 5.6 describes how the Versement Transport works and what it has achieved.

**Box 5.6: The French Versement Transport (VT)**

**How VT works:**

All employers with more than nine employees are subject to a payroll tax, paid by the business, not the employees. If an employer grows above the threshold it remains exempt for three years, after which VT is phased-in over a further three years.

Local transport authorities can set the VT rate within thresholds set by national Government that depend on the size of the urban area and other factors. The threshold for settlements under 100,000 inhabitants is 0.55%, rising to 1% above that, with a further rise to 1.75% for authorities planning or operating metros, trams, light rail or bus rapid transit on dedicated routeways. Tourist areas, combinations of authorities, and Paris can also levy extra. VT is available to population centres over 10,000 and to all tourist centres below that threshold.

**Levels of funding from VT:**

- 81% of France's 242 urban transport authorities levy VT.
- 51% of their infrastructure investment and operational subsidy is funded by VT.
- €7.2 billion (£5.0 billion) was raised by VT in 2013, of which €3.7 billion (£2.6 billion) was raised outside Paris/Ile-de-France.

**How VT has been used:**

After VT was expanded beyond the Paris (Ile de France) region in 1973, it was initially used mostly to fund development of bus networks. Larger urban areas subsequently used substantial amounts of VT funds to build tram networks, which as a result have undergone a renaissance in France. VT has become the prime source of funding for network enhancements, although it has also been increasingly used to support public transport operating costs.

Grand Dax, a conurbation of 56,000 people, has recently used VT to improve its local bus network, in conjunction with forming a local publicly owned company (Société Publique Locale, SPL) to run its buses. Since 2012 Dax has completely redesigned its bus network, with dedicated stretches of busway (thereby allowing a higher VT levy), new bus routes, high frequency services, attractive fares, a new multimodal interchange at the train station and demand-responsive services to 18 outlying rural settlements. The first changes were free high frequency shuttle services that connect major car parks to the town centre from 7am to 7pm. These

carried 333,000 passengers in their first year. The improvements to the charged-for bus network were anticipated to lead to an additional 10% rise in bus use.

To pay for the improvements, VT was raised from 0.6% to 1% to raise an additional €2 million per year. The President of Grand Dax says this could be justified because "In return, we serve all the town's employees: all our economic zones, our health centers and major public facilities will be served by the new routes."

Sources: GART 2014 *L'année 2013 des transports urbains*; Mobilicités 2015 *Le 8 juillet, Dax fait sa feria des transports* http://www.mobilicites.com/011-2136-Le-8-juillet-Dax-fait-sa-feria-des-transports.html, accessed 12.11.2015

Local authorities in Britain have comparatively few powers to raise income locally. The present Government has indicated it will transfer all business rates income in England to local authorities by 2020, with powers for combined authorities with elected mayors to levy an additional 2p in the pound on rates for earmarked infrastructure projects, which could include some transport projects if the combined authorities prioritised those. This power, if exercised by all English local authorities including London would be worth approximately £1 billion[107]. By comparison, the Versement Transport raises much more, is dedicated to public transport (with other sustainable transport), and is not restricted to infrastructure. For the whole of France including Paris, the Versement Transport raised £5.0 billion in 2013. Britain should adopt a similarly ambitious programme to locally generate financing for public transport.

Many other types of tax are levied by local authorities around the world to pay for their public transport systems. The approaches most applicable to Britain are laid out in Table 5.6. For the UK, the main message arising is that we should enable local authorities to raise more money locally to support public transport. Which tax mechanism is most appropriate may vary from area to area (e.g. rural areas will tend to have less capacity to raise significant funds from a payroll levy, but may be strongly positioned to apply a tax on visitor lodging). It may be appropriate to deploy several different types of levy to even out fluctuations of income that could arise from reliance on a single source (e.g. a tax on property transactions relies on a buoyant property market).

**Table 5.6: Possible local funding sources for buses and other public transport**

| Type of funding source | Examples |
|---|---|
| Development charges | Widely used. In Britain, the Community Infrastructure Levy and Section 106 agreements fund public transport capital upgrades but offer little for subsequent operating costs. |
| Local payroll tax | Widespread in France. In Oregon, the cities of Portland and Eugene levy 0.6% for public transport. New York levies 0.34% for public transport. |
| Local income tax | Cincinnati levies 0.3% local income tax to support public transport. |

[107] Business rates in England presently raise £26 billion at a rate of 49p in the pound

| | |
|---|---|
| Local corporation tax | New York partly funds public transport from a local surcharge on corporation tax. |
| Local sales tax | The most common dedicated source of public transport funding in USA. Los Angeles levies 0.5% for public transport and some road schemes. |
| Business property tax | Widely used to support public transport in USA. Being used to expand the Metro in Paris. The Crossrail project in London raised £4 billion from a temporary supplement to business rates. |
| Residential property tax | Widely used to support public transport in USA. Being used to expand the Metro in Paris. |
| Land value capture levy (additional property tax levied on areas benefiting from major public transport upgrades) | Miami, Los Angeles, and Denver defined 'transit benefit districts' to capture land value uplift. Tax Increment Financing borrows to build public transport on the basis of future increases in property taxes (Atlanta is an example). |
| Property sales tax | New York partly funds public transport from a local tax on property transactions. |
| Visitor lodging tax | Local authorities throughout Switzerland levy taxes at various rates for each night of accommodation. Funds are partly used to support public transport, on which visitors who have paid the tax get free local travel. Paris also has a visitor levy to support public transport improvements. |
| Charges for parking on-street and on public land | A widespread source of income in UK and elsewhere, some of which is used for public transport. |
| Levy on commercial car parks | Chicago levies $0.75-$2.00 per day as a surcharge on parking. |
| Levy on workplace parking | Nottingham levies a workplace parking levy, which it uses to help fund its tram. Melbourne, Perth and Sydney use workplace parking levies to fund public transport. |
| Road user charges | London, Singapore and Stockholm apply congestion charges. San Francisco is using bridge tolls for public transport improvements. Lorries in Germany pay a fee per km, but this is not locally controlled. |
| Local vehicle tax | 33 states and 27 local governments in USA use a vehicle tax to fund public transport. Toronto collects $60/vehicle/yr. |
| Local fuel tax | Vancouver levies 15c/litre for public transport. |

Sources: 1) Litman T 2015 *Local funding options for public transportation*; 2) Goldman et al 2001 *Local option transportation taxes in the United States*; 3) Freemark 2009 *How to fix transit financing; 4)* PWC 2014 *Crossrail 2 funding and financing study*

The justification for funding public transport from the different sources in Table 5.6 rests upon the fact that all these groups are beneficiaries. Direct benefits to the users of public transport represent only a part of the benefits provided by public transport. It is therefore logical that payment for public transport should also reach beyond the farebox. Businesses benefit from public transport that makes them accessible to their workforces. They also receive savings in supply and distribution operations where public transport reduces delays due to road congestion by allowing drivers to travel by other means. Both businesses and individuals benefit from considerable uplift in the value of their property where public transport is significantly improved. Even motorists who do not use public transport benefit from removal of other vehicles from the road and from public realm improvements that are possible

where towns and city centres are accessible by public transport. The amelioration of local (and global) pollution by public transport benefits everyone.

Because better public transport brings benefits so widely, raising local taxes to fund public transport is politically achievable and can be a popular measure. For example, in November 2015 residents of Seattle, USA, voted for a property tax levy of $900 million to fund the Mayor's 10-year transport vision 'Move Seattle'. The plan includes seven rapid bus routes with dedicated lanes and aims to provide 75% of residents with a bus service running at least every 15 minutes within a 10-minute walk, as well as supporting other forms of sustainable transport[clxi].

British local transport authorities should be equipped with revenue raising powers to raise money for buses and other public transport on a par with those seen in the other countries discussed above. Logically and sensibly some of this money should be raised by measures that simultaneously encourage modal shift away from cars. Where these powers already exist, national government should indicate that it will actively back local authorities who wish to put in place workplace parking levies and congestion charging zones (on condition that the revenues arising will be dedicated to improvement of sustainable modes of transport including buses). If necessary, national government should amend legislation to make it easier to achieve these measures. Restrictions on local authorities raising funds from parking enforcement and from other motoring offences should be removed.

Local transport taxes alone will not achieve all that is needed to achieve a vibrant bus system throughout Britain. National funding is required to fund bus networks in areas with little potential to raise funds locally and to meet national aspirations for bus services. Concessionary fares, for example, are a national policy commitment and should be fully funded by national government.

Bus Service Operators Grant (BSOG) is a valuable tranche of national funding that should be continued. It should, however, be devolved to local authorities along with flexibility to delink it from fuel use, remove the perverse incentive to use more fuel and instead deploy the money in whatever way they judge to be most efficient. The policy of attaching conditions to devolution of BSOG should be strengthened, so that local transport authorities that wish to obtain the BSOG budget must re-regulate for either a franchised bus market or for a network run by a not-for-dividend municipal operator. Similarly, disbursement of the English, Scottish and Welsh budgets for concessionary fares could attach conditions to encourage authorities to move to governance systems within which concessionary fares can be achieved more cost-effectively.

The default principle should be that all funding for road passenger transport, whether locally or nationally sourced, whether from transport departments or from other departments such as health, should flow through the local transport authority. The aim should be to achieve 'Total Transport Authorities' that have complete responsibility for all road passenger transport, including 'specialist' forms of transport to provide on-demand services for those with social or medical needs, so they can take a strategic approach to serving those needs as comprehensively and efficiently as possible. All funding for buses provided by national Government should be ring-fenced for fulfilment of the bus duties that local transport authorities should receive: to improve bus services and increase bus use.

Local transport authorities need stability in their national funding, so they can lay down longer-term costed plans for how they intend to improve their bus networks and raise bus use, and can set about enacting those plans in the most efficient way. There should be a five-year planning and funding cycle for buses that provides a comparable level of commitment and certainty to the five-year funding cycle now established for roads[clxii & clxiii] and the longer standing five-year funding cycle for rail.

Greater powers to raise funds for public transport at local level will trigger local debates about the options to raise more money for buses (and other sustainable modes of travel). A similar debate is needed at national level, not simply because many areas will not be able to find sufficient local funds to provide the bus service they need, but also because some forms of financing are inherently more feasible and efficient if introduced at national level. Road-user charging is a possible example. Any individual local scheme is likely to appear relatively costly to establish, whereas a nationwide system of road-user charging (with locally variable rates) may be a more cost-effective option.

**CONCLUSION 14:**

- Local authorities should receive greater powers to raise more money for buses; national government should support local authorities in accessing presently available powers to raise funds locally and simplify procedures where necessary; restrictions on using parking and traffic fines to fund better bus services should be rescinded.
- Local transport authorities should be the conduit for all funding for road passenger transport (all local and national funding from all departments).
- National funding for buses should be on a rolling five-year funding cycle that provides planning certainty.
- All national funding to local transport authorities for buses should be ringfenced for that purpose and should provide incentives to re-regulate local bus networks.
- BSOG funding should be devolved (where this has not already been done), on condition that local transport authorities agree to move to a franchised bus market or to deploy a municipal bus operator to their entire network.
- Concessionary fares are a national policy and should be fully funded by national government.
- National options to raise additional funds for buses and other public transport should be considered, including a nationwide road user charging scheme.

# 6. Conclusions

## 6.1 Overarching conclusions

The research and analysis compiled in this report leads us to four broad conclusions.

**1. Deregulation that gives bus operators freedom to decide where to run their services and how much to charge for them makes it impossible to achieve many functions essential to a good bus network.** Some of the most damaging deficiencies are the inability to provide unified ticketing giving travellers economical access to whole networks, the inability to provide connecting public transport services, and the inability to integrate buses into strategic development plans.

**2. Deregulation comes at a heavy financial cost.** Thirty years of experience have shown that the underpinning supposition of deregulation was wrong: bus operators designing bus networks to maximise their profits do not create the best value for the public. Our calculations show that re-regulation to impose a franchising system of bus provision throughout Britain would generate financial gains in the order of £340 million. The amount becoming available immediately would be sufficient to restore all the cuts that have been made to bus services since 2010. If bus services were provided on a not-for-dividend basis by municipally owned bus companies, greater gains would be created, to the order of £506 million. There is a strong case to enlarge the role of municipal bus companies in Britain, learning from European best practice. This approach would generate more funds to invest in achieving a virtuous circle of rising patronage and fare revenue.

**3. Extensive and deep changes to the governance of Britain's bus services are needed, for which national government must set a legislative and legal presumption in favour of re-regulation.** The legislative steps that have been made towards re-regulation have largely failed, and the franchising option theoretically available has proved inaccessible to local authorities. For deeper reform to succeed, it must become easy for local transport authorities to re-regulate the bus markets in their areas. If cash-strapped local authorities are asked to impose reforms against the likely resistance of multinational transport groups with turnovers of billions of pounds, the result will be further stasis. National government should entirely remove the legal burden from local authorities by making the legislative and legal case at national level that re-regulation is justified, so as to set a legal presumption that re-regulation will be the norm. The last three decades of deregulation have provided ample evidence to make this case at the national level.

**4. Putting Britain's bus services on a sustainable financial footing requires regulatory reform as well as financial reform.** This report has discussed the attributes the bus system in Britain needs to rate as world-class. It is not sensible, or feasible, to allocate greater funding for these desirable attributes, such as better network coverage, when the only way to achieve them is highly inefficient. One example is the publicly-funded kickstart schemes that have upgraded many commercial bus services to higher frequencies that are more commercially valuable. The outcome is good for passengers and operators, but after the public purse has paid to cover the perceived commercial risk of the upgrade, the operator has captured the windfall profit rather than that extra revenue becoming available to invest in further upgrades. As one observer has summed it up, *"There is no point trying to fill a bucket whilst there is a hole in the bottom."* Once re-regulatory bus reforms are in place, greater national funding and greater powers for local authorities to raise funds for buses could be put to good use. Such funds are much needed so that buses can accomplish the social, environmental and economic functions they need to deliver if we are to achieve a sustainable transport future.

## 6.2 List of detailed conclusions and recommendations

**1. Duties on local transport authorities:**

- Local transport authorities should be charged with duties to improve bus services and increase local bus use.

**2. Powers for local transport authorities to re-regulate buses:**

- Local transport authorities should have powers to re-regulate buses, because on-street competition is incompatible with purposely designing a bus network for the public good.

**3. Scale of efficiency savings from franchising:**

- Franchising would represent better value than the deregulated system. It would immediately liberate sufficient funding to restore cuts made since 2010, and over time would generate additional revenues sufficient to add new services.

**4. Feasible speed of reform of bus governance:**

- Introduction of franchising is likely to be gradual, with some local authorities waiting to see the experience of the 'early adopters'.
- National government must take responsibility to remove all legal obstacles to re-regulation for local authorities and make franchising the 'default' option.

**5. Optimum scale of franchised operations:**

- A successful transition to franchising requires a balance between minimisation of disruption to staff and avoidance of excessive risk for small operators.
- Transport authorities are likely to achieve greatest operational efficiency and least staff disruption through depot-level franchising, but this approach should consider risk-reducing options to facilitate bids from small operators, such as keeping a proportion of routes on a route-by route franchise or taking municipal ownership of some depots and vehicles.

**6. Efficient and fair industrial relations:**

- Legislation that gives transport authorities franchising powers should direct authorities to adopt minimum staff terms and conditions that must be met by all operators.
- Bus sector statutory joint industrial councils should be established for each franchised area and at national level to set staff pay, conditions and pensions.
- Explicit rules to apply TUPE to bus franchising are required.

**7. Powers to create a new generation of municipal bus operators:**

- Britain should permit local transport authorities to emulate international examples of good quality cost-efficient municipal service provision.

**8. Whole network contracts for municipal operators:**

- Laws in Britain should be changed to allow direct award of all or part of a bus network to a municipal bus operator, in line with EU law.

**9. Scale of savings from municipal bus operation:**

- Savings from municipal operation would be greater than from franchising.

**10. Management of municipal bus companies for the public good:**

- Municipal bus company structures should change, to legally permit direct award of whole-network contracts and to create appropriate owner-operator relationships.

- Municipal bus companies should be subject to ultimate control by their owning authorities but with 'arms-length' management freedoms.
- A supervisory board structure is one way this could be achieved within EU law.
- A supervisory board also facilitates representation of bus company staff and bus passengers.

**11. Routes to expand municipal bus company provision:**

- Once legal hurdles are removed, local transport authorities would have several ways to establish municipal bus company operations. For local authorities close to existing municipal bus networks inter-authority collaboration could offer an easy and rapid option to gain the benefits of municipal bus company operation.

**12. Network coverage standards and service quality standards:**

- National government and local transport authorities should develop network coverage standards.
- Contractual arrangements with operators should take the form of quality-incentive contracts and local transport authorities should take over the Traffic Commissioners' powers for licensing and enforcement of service standards.

**13. Scope and scale of transport authorities:**

- Local transport authorities should become 'Total Transport Authorities' responsible for all forms of road passenger transport (and other local public transport).
- Total Transport Authorities should operate at a sub-regional level rather than the level of individual local authorities (except where these already have sub-regional span).

**14. Funding bus services:**

- Local authorities should receive greater powers to raise more money for buses; national government should support local authorities in accessing presently available powers to raise funds locally and simplify procedures where necessary; restrictions on using parking and traffic fines to fund better bus services should be reversed.
- Local transport authorities should be the conduit for all funding for road passenger transport (all local and national funding from all departments).
- National funding for buses should be on a rolling five-year funding cycle that provides planning certainty.
- All national funding to local transport authorities for buses should be ringfenced for that purpose and should provide incentives to re-regulate local bus networks.
- BSOG funding should be devolved (where this has not already been done), on condition that local transport authorities agree to move to a franchised bus market or to deploy a municipal bus operator to their entire network.
- Concessionary fares are a national policy and should be fully funded by national government.
- National options to raise additional funds for buses and other public transport should be considered, including a nationwide road user charging scheme.

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