

## House of Commons Transport Select Committee

### Inquiry into bus services across the UK

#### Submission from *pteg*

(representing the English Passenger Transport Executives: Nexus, Merseytravel, Greater Manchester PTE, Metro, South Yorkshire PTE & Centro)

**Has deregulation worked? Are services better, more frequent, meeting passenger need? Are bus services sufficiently co-ordinated with other forms of public transport; are buses clean, safe, and efficient? If not, can deregulation be made to work? How?**

In *pteg's* view, the deregulation of buses has been a failed experiment. No other developed country has followed the UK lead over the last 20 years and the only part of the country that has seen sustained increase in bus use has been London, with a few notable exceptions.

London has seen sustained growth in patronage even during the period (during most of the 1990s) that bus subsidies were being reduced. Whilst it would be wrong to attribute all the improvements made in London to the regulation, the presence of a regulated framework has enabled a competitive model of private sector procurement to be combined with a clear public sector-led specification role to achieve effective policy delivery. In contrast, many of the Passenger Transport Executive (PTE) areas suffer from services being provided by a single dominant operator, who can deter, or if necessary fight off, any 'on the road' competition and can ensure that competition for any supported services is minimised by selectively registering services they are able to secure any socially necessary additions with minimal competition. A survey carried out in 2004 showed that in the 36 Metropolitan Districts covered by PTEs, a single operator provided at least 70% of bus services in over half (i.e. 19) of those Districts, and in some 12 Districts the proportion rose to 80% or more. The level of dominance at a local level is a strong indicator of the absence of a contestable market.

Operators providing deregulated services put a premium on protecting their operating territories. Thus maintaining coverage of services at times when commercial services becomes a major consideration even if this requires a reduction in quality. Operators have been very successful at reducing the cost base of bus services, but, particularly in recent years, this has been at the expense of quality and higher fares. Whilst operators understandably complain about the impact of traffic congestion on their services, Department for Transport (DfT) statistics show that about three quarters of cancelled bus services outside London result from factors within the control of operators, such as staff shortages or mechanical breakdowns. Fares in PTE areas have risen by 44% in real terms over 15 years, and by 9% in the past five years.

Service frequencies have generally held up relatively well. Whilst patronage in PTE areas has declined by 34% over the past 15 years, service mileage has dropped by only 12% over the same period. This is partly as a result of PTE intervention to procure supported services – PTEs now support 1% more bus mileage than they did five years ago, despite a reduction in total mileage of over 4% over the same period - but is also a result of operator strategies to maintain quantity, if necessary at the expense of quality and price.

Commercial imperatives require that meeting passenger needs comes second to achieving an acceptable profitability. Thus high volume corridors are served at the expense of difficult to access, but highly socially necessary destinations. This can leave 'off centre' facilities such as major hospitals, employment sites or shopping centres poorly served without PTE intervention to secure additional non-commercial services. There is no incentive within the

current framework for operators to take into account the wider benefits of improved access to key facilities. Similarly operators have no incentive to help passengers 'join up' journeys through good interchange with other operators' services. Thus the Government's objectives of an integrated public transport network are therefore undermined by the requirement for a commercial approach. PTEs can only influence service patterns at the margin as they 'top up' the commercial network with the final 15%.

Cost pressures on operators increasing incentivise them to serve passengers with little or no alternative means of travel. Thus quality, customer care, comfort and adequate maintenance standards are continually under pressure. Although safety standards are under the control of Traffic Commissioners, they tend to be under-resourced and therefore some operators are encouraged to take a calculated risk on maintenance and even safety standards. This has led the Commissioners to intervene with a number of PTE-based operators. Three recent examples are given below, the first two of which relate to large plc operators.

Standards of maintenance at First Manchester slipped so far that on three occasions wheels have come off buses in service and a number of vehicles were in use despite having expired Ministry of Transport (MoT) certificate. In addition, a bus which was involved in a fatal accident was found to have an expired MoT certificate.

In December 2004, following a maintenance investigation and an exodus of staff, Arriva Yorkshire West was subject to a check of twenty randomly chosen vehicles at two depots. Five immediate prohibitions, five delayed prohibitions and 17 advisory notices were issued as a consequence of defects including oil leaks, faulty brake valves, broken seats and emergency exit defects. It transpired that company policy was to "monitor" oil leaks rather than repair them immediately.

During an inspection, carried out by the Vehicle & Operator Service Agency (VOSA) in April 2003, at Merseyside bus operator Glenvale Transport (now owned by Stagecoach) only 22 out of 48 buses were found to be without defect. A further inspection in May 2003 found that just 4 out of 35 buses examined escaped being given immediate or delayed prohibitions or inspection notices.

Despite low standards and the significance of cost pressures, PTEs have been able to make some quality partnerships with operators work and have jointly delivered improvements in services, which have resulted in increased patronage on specific corridors or networks. Some operators, particularly smaller operators with a strong sense of public service, have been willing to sacrifice short-term profitability for longer-term growth through improved quality. However, all too frequently it has proved impossible to combine public policy and commercial objectives. This is particularly the case with the large companies, for whom a key pressure is to produce short-term returns on capital in line with City expectations. In many cases and after prolonged periods of attempts to foster partnership working on voluntary basis, PTEs have come to the view that national and local policy objectives are best served by seeking to operate in a more highly regulated environment. Statutory quality partnerships (delivered through Quality Partnership Schemes) generally offer little additional benefit as medium-term service and fare level agreements are impossible, and therefore PTEs are actively pursuing the use of bus Quality Contracts (QCs).

### **Is statutory regulation compromising the provision of high quality bus services?**

The current statutory regulation of the industry is largely a matter for the Traffic Commissioners. In our view the Commissioners set standards for bus operators at too low a level, they are inadequate resourced to police the industry and they have the wrong tools available to enforce standards.

The current model of deregulation tends to encourage the formation of local monopolies or oligopolies and undermines integration, stability and sensible co-ordination between operators. Dominant commercial operators have an unacceptably strong influence over the way the market is served, and can follow commercial strategies that are based on the acceptance of patronage decline. In doing so they clearly undermine the delivery of Government policy.

Quality partnerships can provide local improvement but it is highly questionable that such partnerships raise quality generally. Older vehicles are kept in service by the larger companies cascading them to other parts of the network and passenger quality indicators published by DfT show overall quality is no higher than it was 5 years ago, in contrast with London, where passenger perceptions have consistently improved.

### **Are priority measures having a beneficial effect? What is best practice?**

Bus priority measures are an important aspect of improving bus service quality. PTEs have not been able to improve bus priority measures to the degree they would have wished and we are dependent upon local highway authorities to deliver this aspect. Where bus priorities have been implemented journey times are reduced and reliability is improved. Best practice has been published by the Bus Partnership Forum, has been promoted in the recent 'Backing the Bus' publication and continues to be a subject of conferences that we often co-sponsor. *pteg* was responsible for 'Backing the Bus' and supports all these initiatives to promote best practice. There is, however, a major issue of political will at a local level to give bus services higher priority in the use of limited road space.

### **Is financing and funding for local community services sufficient and targeted in the right way?**

Leaving aside reimbursement for concessionary travel (which is primarily a subsidy of passengers rather services), the main source of public funding for bus services comes from bus service operators' grant (BSOG) (about £380m pa<sup>1</sup>) and local authority support for socially necessary services (about £230m pa<sup>2</sup>). In 2004/05, subsidy per passenger in London was 31p, while in PTEs it was 11p<sup>3</sup>. If bus services are to play the wider role supported by both local and central government in reducing traffic congestion and contributing to social inclusion, then higher levels of subsidy are likely to be justified, though the existing deregulated environment makes it difficult to intervene in a way that cost-effectively leverages the best policy outcomes.

Currently PTEs have little influence over the network provided by operators, and operators are incentivised to maximise mileage to protect subsidy levels and deter competition. Neither of these main sources of funding currently encourage achievement of patronage growth targets, nor the wider objectives of local authorities to increase local accessibility, achieve mode shift away from car and promote social and economic regeneration. We consider that subsidy linked to patronage, possibly with a higher emphasis on peak passengers, together with an element linked to quality of delivery would lead to a much closer alignment between funding and policy delivery.

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<sup>1</sup> Department for Transport estimate 2005/06

<sup>2</sup> TAS Publications & Events, *Bus Industry Monitor 2005*, quotes total 'secured service' budgeted expenditure by English local authorities (including PTEs) during 2004/05 at £228.4m. TfL's budgeted expenditure for the same year was £545.0m

<sup>3</sup> House of Commons, Committee of Public Accounts, *Delivery chain analysis for bus services in England*, The Stationery Office, London, 2006, p13

**Concessionary fares – what are the problems with the current approach? Does the Government’s proposal to introduce free local bus travel across the UK for disabled people and the over 60s from 2008 stand up to scrutiny? Should there be a nationwide version of London’s Freedom Pass – giving free or discounted travel on all forms of public transport?**

Statutory concessionary travel for older and disabled people has gradually improved over recent years through a range of government initiatives and is proposed to become free for these groups throughout England in 2008. The removal of internal boundaries within England is welcome, although some PTEs have already negotiated arrangements with adjoining authorities to minimise constraints on local travel. This approach of allowing for ‘extended local travel’ is one which solves most of the problems associated with access to key facilities. It also allows local authorities to provide free travel to other modes of local transport. Local rail and ferries are often key elements of local transport networks as London’s Freedom Card recognises. These modes should either be included in the national scheme, or powers and funding need to be adequate to allow such local extensions to be included in the post-2008 approach.

We do, however, have concerns about the basis of payment for this policy. While the ‘no better off, no worse off’ principle for operator reimbursement is indisputable in theory, it has become meaningless in practice. We do not know what fares and ticketing offers operators would choose to introduce in the absence of a statutory scheme, but we would strongly contest the assumption, implicit within the DfT’s recent guidance, that they would charge full adult single fares for this highly price-sensitive group of passengers. Both PTEs and more, recently operators, market a wide range of lower priced tickets to encourage off-peak travel and address the needs of market segments with lower incomes.

There are two concerns about the proposals for 2008. The first is one of policy priorities and value for money. We question the extent to which this will mainly favour better-off individuals within the two groups who frequently travel to other parts of the country, whilst poorer sections of the community who depend on bus services mainly to access local facilities benefiting little. PTEs would like to have seen a widening of the scope of concessionary travel before a deepening of the benefits to existing users. There is also good reasons to consider a statutory minimum fare for children and young people ahead of further improvements for older and disabled people. This is in line with the recommendations made by the Commission for Integrated Transport (CfIT) in 2002.

The second is a practical one of how the change is going to be delivered with minimum disruption in less than two years. The process of implementing the April 2006 change was highly disruptive for some authorities, notably Nexus, where the funding necessary to implement the change was not passed through the RSG system to the Tyne & Wear District Councils, leaving Nexus cutting other services to fund the change to free fares. The adequate funding of the proposal for all concessionary travel authorities is key to the successful management of the change.

**Why are there no Quality Contracts?**

There are a number of major barriers to the introduction of QCs, and more than five years after the passing of the legislation no applications have been lodged. This is an interesting contrast to the policy that led to the Transport Act 2000, which stated that ‘initially we would expect to give a very limited number of approvals to allow the QC approach to be tested’<sup>4</sup>. The DfT has still not made the change to secondary legislation promised in 2004 to reduce the barrier to QCs nor has it implemented the proposed change in the Spending Review 2004 to arrangements for BSOG, and it has continued to oppose amendment of ‘the only

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<sup>4</sup> DETR, *Workhorse to Thoroughbred: a better role for bus travel*, 1999, paragraph 6.8

practicable way' requirement in the 2000 Act. This presents a major barrier. At the Public Accounts Committee hearing into the recent joint National Audit Office/Audit Commission report in the Bus Delivery Chain, the DfT Permanent Secretary indicated that he expected any successful application for a QC to be tested in the courts. It is clear that there is no longer any desire within Government even for a few initial experiments.

**pteg** has been in the forefront of efforts to bring QCs into play, for instance through published research into the subject<sup>5</sup>, and two PTEs have more recently collaborated on a market consultation exercise to understand how operators could best deliver value for money through a range of measures including QCs. **pteg** will continue to lobby for changes to the 2000 Act to allow such experiments to be brought forward. A prime issue is the need for Local Transport Authorities to determine for themselves whether quality contracts are the most appropriate policy instrument to employ. The choice of best mode of delivery essentially of local services is not an issue of which the Secretary of State need become involved.

**Are the powers of the Traffic Commissioners relevant; are they adequately deploying the powers and resources that they currently have? Do they have enough support from Government and local authorities?**

The powers held by the Commissioners are inadequate and the use of current powers can damage the delivery of policy. At present, Commissioners have three sanctions at their disposal: reduction of operating licences (effectively reducing the scale of the business of a poorly performing operator), the levying of fines, and, in extremis, the withdrawal of an operator's licence. The first and third of these measures reduces the capacity of the industry where there are often problems of lack of competition and the second action benefits the Treasury, often at the expense of local authorities (who have to pay more for supported services) or bus passengers (who are charged higher fares) as a result of the Commissioner's actions. In a regulated environment, the PTE or local authority would have far greater power over operators than the Commissioner, because it could reflect failure to deliver through the tendering process in the same way that Transport for London does, and put in place a reward/penalty regime to encourage acceptable delivery standards.

However, in a deregulated environment the Commissioner's role should either be taken over the local authority, with a right of appeal to an independent tribunal, or the current arrangements should be significantly strengthened with more resources available to monitor service delivery both at the operating base and on the road, and the ability to recycle any fines through grants to local authorities suffering from poor delivery.

**Is London a sound model for the rest of the UK?**

London does provide a sound model, but we would not propose its widespread implementation elsewhere. There is scope for a range of approaches within a regulated framework. The emphasis should be on local solutions being appropriate for local conditions, but within a common procurement framework to minimise transaction costs for both promoters and bidders. PTEs are working towards such an approach to ensure that quality contracts deliver good value for money.

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<sup>5</sup> For instance see; Bus planning, procurement and regulation: Implementing a Quality Contract, 2003, and Bus Quality Contracts: Frequently Asked Questions. [http://www.pteg.net/NR/rdonlyres/795A6146-FFF1-47AA-BC5F-031FB836914C/0/Bus\\_Planning\\_Performance\\_Regulation\\_Part2.pdf](http://www.pteg.net/NR/rdonlyres/795A6146-FFF1-47AA-BC5F-031FB836914C/0/Bus_Planning_Performance_Regulation_Part2.pdf)

**What is the future for the bus? Should metropolitan areas outside London be able to develop their own form of regulated competition? Would this boost passenger numbers? If not, what would? Does the bus have a future? In addressing rural railways, the Secretary of State has said that we “cannot be in the business of carting fresh air around the country”; is the same true for buses?**

The future for the urban bus industry is potentially a bright one. Despite decades of decline, there is a desire on the part of central and local government to use bus services in the battle to reduce traffic congestion and support social and economic regeneration. It will require the adoption of bold and innovative policies, including the re-allocation of road space, and strict enforcement of parking policies, together with a much stronger role for the public sector in the specification of a stable and growing network that meets the needs of local people. It will be necessary to make tough decisions about the best structure for the local network with the needs of major corridors into cities and towns being balanced by less well patronised secondary and orbital routes. However the ability to be able to co-ordinate the services of different operators, introduce simple integrated fares and ticketing, and promote the full range of public transport as a single network can be a powerful influence in helping bus services move into a period of sustainable growth.

In the city regions this may involve some element of regulated operation. In others, progressive operators willing to plan for the long term may be willing partners in the vision set out in the local Bus Strategies. But in each case, it is the local authority or PTA/E that is best placed to judge how to maximise value for money and improve services in the most cost-effective manner. In some cases this will mean stronger integration between different modes, through park & ride and bus/rail interchange. In others, it may require rationalisation to avoid duplication of services battling for similar markets.

In rural areas different solutions may apply as passenger flows are inevitably lower. A combination of relatively strong inter-urban routes may be best complemented by community-based solutions, but again it will be for those communities and elected representatives to judge how best to meet local needs.

In all situations, it will be necessary to listen carefully to passenger requirements and design services and standards that meet their needs. Consistently passengers tell us that service reliability (including punctuality) and stability are vital elements of the service with issues such as affordability of fares and the ability to make the journeys conveniently to access key facilities. It will be necessary to keep passenger needs to the fore in planning services and networks. We believe that this aspect of service delivery is best led by local authorities and PTEs drawing on operators' expertise, but not being led totally by commercial considerations. If bus services are to thrive it is essential that they are planned within a long-term framework that is able to plan fare and service levels over a number of years. We can only see being possible either through medium-term contracts with operators or through binding partnerships that reflect that long-term commercial considerations centred on market growth strategies and outweigh City investors' requirements for short-term profitability.

In summary, PTEs require:

- A more flexible and locally-determined menu of options including quality contracts from which to serve passenger needs;
- Significant revisions to the Quality Partnership Scheme and Quality Contract legislation to enable cost-effective, locally-appropriate solutions to be implemented;
- A wider recognition of the needs for better bus priority, stronger parking policies and, where appropriate, road pricing solutions, with possible unification of public transport and strategic highway responsibilities, where this is the preferred local solution;
- A funding package that encourages and rewards all parties for adopting policies that raise the quality of delivery and grow the market for bus travel.