

Building a World-class Bus System for Britain

Extended Summary Report



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The Full Report

For references and further details see the full version of this report available at www.transportforqualityoflife.com (7 Mb, 125 pages)

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About TfQL Community Interest Company

TfQL Community Interest Company is the not-for-profit sister company to Transport for Quality of Life Ltd. Its work aims to promote a transport system that is more socially and environmentally beneficial, through research, policy development and dissemination of good practice.
Incorporated in the UK, Company Number: 7715481

About the Foundation for Integrated Transport

The Foundation for Integrated Transport is an independent charitable foundation. Its aims include promoting comprehensive integrated public transport networks, including better local and regional bus networks, and supporting groups and individuals who are working to protect local bus networks and sustainable transport.

About Unite

Unite is a democratic and campaigning union that stands up for equality of all. It is the main union for the bus sector, representing 80,000 bus company employees. 90 per cent of the staff running Britain's local bus services are members of Unite.

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Abstract

- Bus deregulation in the 1980s was supposed to improve Britain's bus services, but it made them worse.
- After thirty years with the deregulated system it is now clear that there is a fundamental conflict between deregulation and a world-class bus system. Deregulation makes it impossible for bus services to work together as a unified network. It also prevents cost-effective use of public money to provide the best bus service for the available resource. This becomes particularly evident at a time when funding cutbacks mean there is less public money available.
- Bus users are now suffering from fragmented, under-funded bus services. The present bus services may represent a rational response to deregulation from the commercial perspective of profit-maximisation, but they are not rational from a public interest perspective and do not represent best use of public funds for bus provision.
- One of the biggest problems is that bus operators can cherry-pick the profits from the best routes, extracting revenues that local authorities could otherwise use to improve the rest of the bus network.
- Another severe problem is that economical simple ticketing, valid across a whole bus network, is impossible to achieve without regulatory powers. This makes bus travel less attractive, more complicated and more expensive.
- These problems could be resolved if all local authorities had the powers to regulate their bus services and provide them under a system of franchises. Only London can do this at present. If all other local authorities franchised their bus services it would also result in financial gains that would be large enough to restore all the bus services that have been cut since 2010 because of austerity budgets. Over time, bus franchising would generate further funds to invest in service improvements. This could and should be achieved under rules like those in other parts of Europe that avoid the damaging race to the bottom for staff pay and conditions that has occurred in London.
- However, local authorities could achieve even greater financial gains, enabling even better bus networks, by emulating best practice in continental Europe. There, many towns and cities own municipal bus companies. They operate their bus services on a not-for-dividend basis and prevent cherry-picking incursions that would undermine the viability of a high-quality network. Local authorities in Britain should have the option to do likewise.
- This summary of the report 'Building a World-Class Bus System for Britain' looks what Britain's bus services *should* be like, and how we could make that happen.

1 Purpose of this 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, 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. Thirty years after deregulation of buses, 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 and financial 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.

2 Deregulation failed to increase bus use

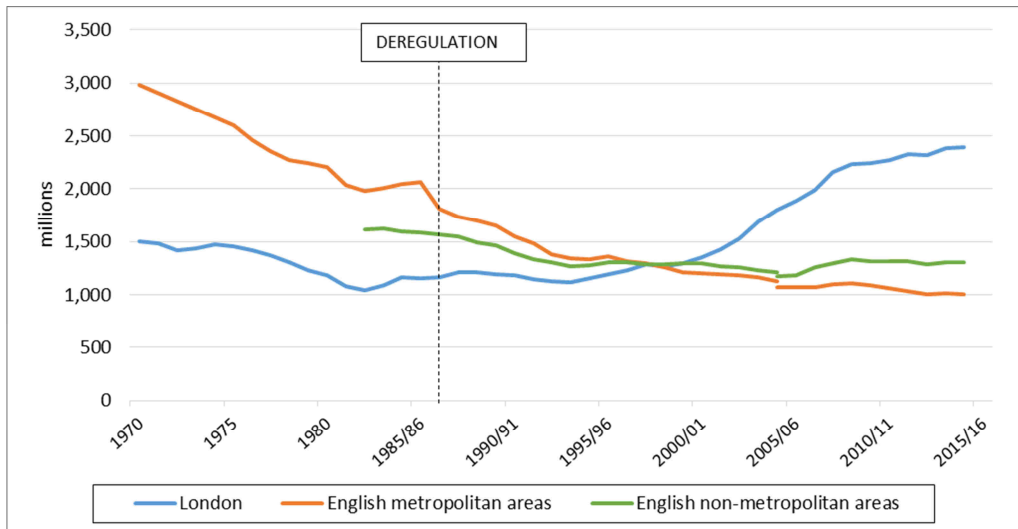
During the 1970s, bus use was in decline. This trend was reversed in the early 1980s, in London and the metropolitan areas, when the Passenger Transport Authorities and Greater London Council adopted policies of supporting bus services and keeping fares down.

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 sharp fall (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 1). Patronage also fell in non-metropolitan areas, though with some individual exceptions where buses did well, such as Brighton and Kent.

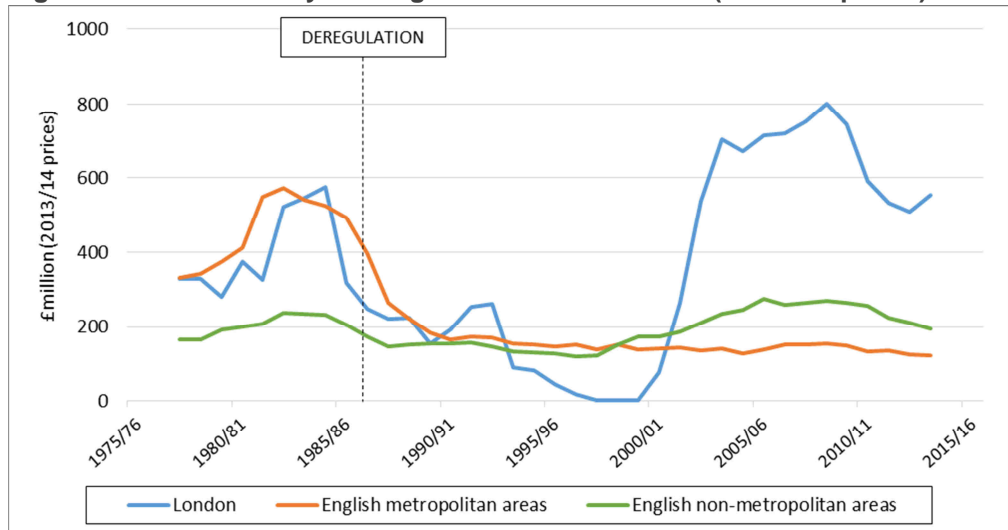
Figure 1: Annual passenger journeys on local bus services



In London, where bus services remained regulated (but were nevertheless privatised a decade later), the pattern is reversed: bus trips have doubled since the mid-1980s, from ~1 billion to over 2 billion trips per year.

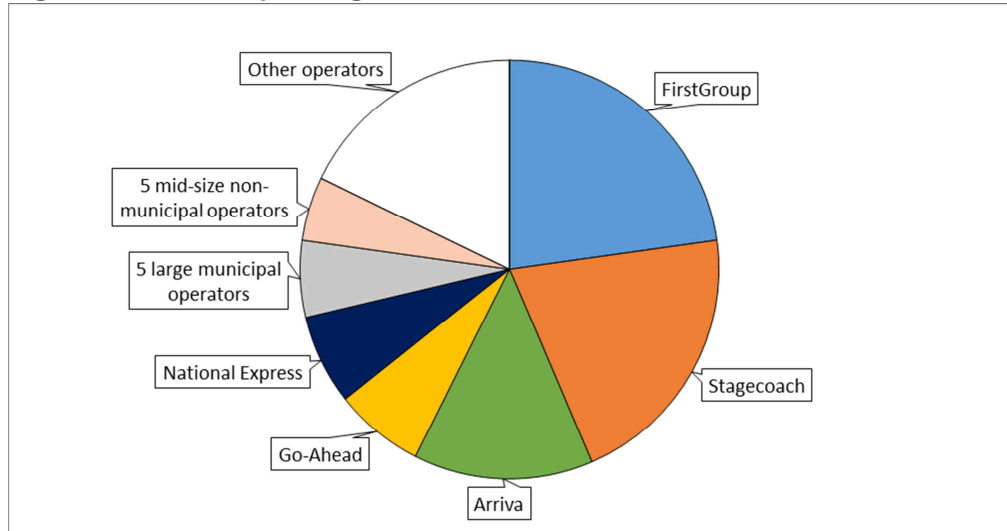
The different trends in London and the rest of the country cannot be explained solely by recent more generous funding for buses in London: during the 15-year period from 1986 to 2000 London saw a greater drop in its funding than elsewhere, yet patronage held up in London whilst it fell in other big cities (Figure 2).

Figure 2: Local authority funding for local bus services (constant prices)



In the period since deregulation a few large companies have established dominant market positions. By turnover, the five largest bus groups now hold about 70% of the British bus market (Figure 3). 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.

Figure 3: Share of operating revenue from local bus services

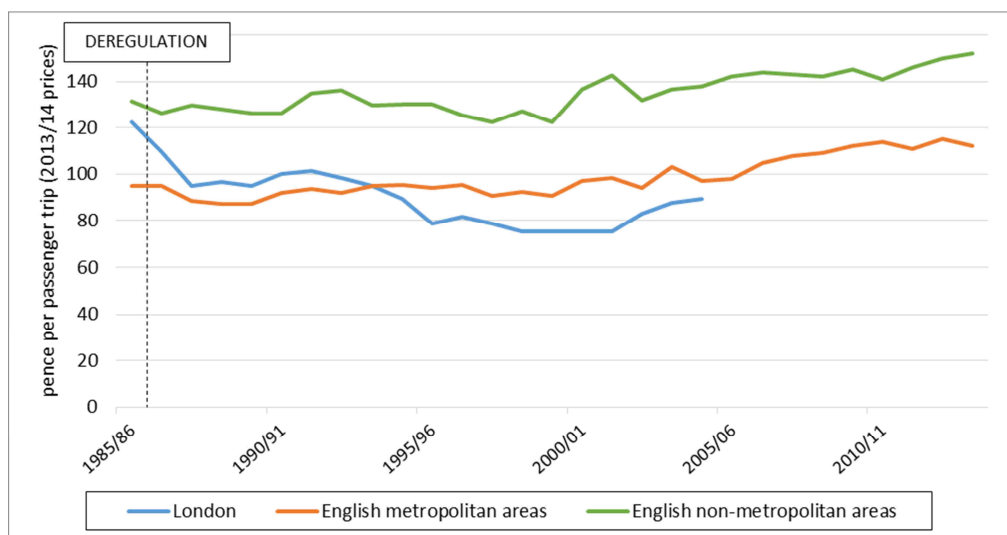


Source: Competition Commission 2011 *Local bus services market investigation*.

With monopolies in local bus markets where most bus users had few alternative travel options, bus operators found they could make more money by raising fares and trimming back to core services, even though some passengers did find alternatives and stopped travelling by bus as a result.

However, driving away passengers made the bus system less cost-effective. Measured per passenger, costs failed to reduce, despite commercial companies squeezing down staff numbers, pay and conditions. In London, the cost squeeze was similar, but regulation continued to ensure a coherent bus network with simple network-wide ticketing, so that patronage was retained and the cost per passenger trip fell (Figure 4).

Figure 4: Cost-effectiveness: Operating costs per passenger (constant prices)

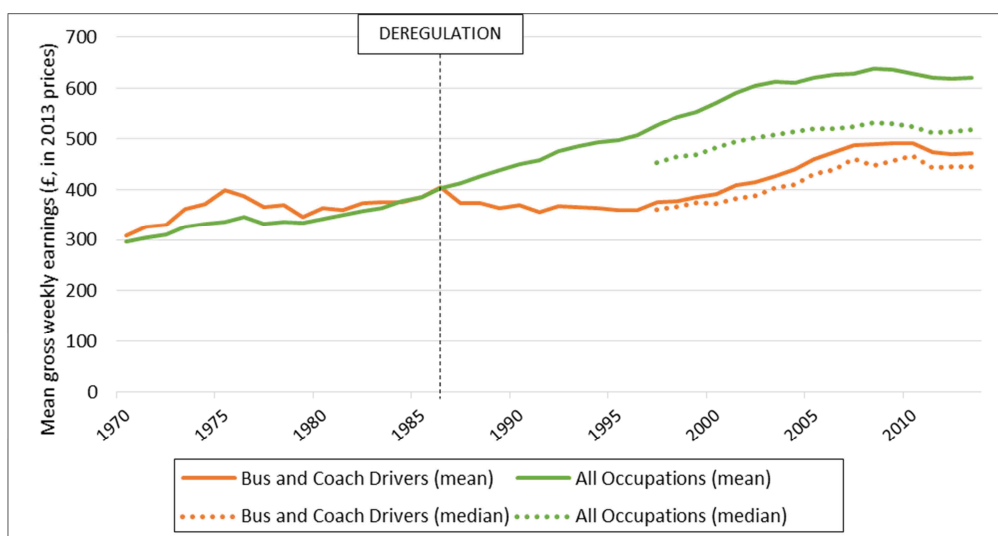


In contrast to other countries in Europe, where any outsourcing of bus services has been in the context of sector-wide collective bargaining agreements, deregulation in Britain resulted in a 'race to the bottom', with companies striving for commercial advantage through obtaining the lowest staff pay and worst working conditions.

The effect on bus companies' employees has been devastating, with bus drivers' pay falling far behind that of other occupations (Figure 5). London's system, that has regulated bus services without regulating employment conditions and pay, has

proved at least as damaging in this respect as the system elsewhere that has regulated neither.

Figure 5: Average weekly wages for bus drivers (constant prices)



Poor pay and conditions have led to service disruption for bus users, with strikes in London and elsewhere.

3 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 (Table 1). 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.

Table 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.

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.

Twelve 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 parts of continental Europe, most bus services are municipally operated. In France, this has not been the case historically, with most bus services operated by commercial providers under 'whole city' franchises. However, in the last decade there has been a significant shift in the way French cities run their public transport. Some municipalities and Départements have switched from contracting national private (or public-private) operators, to running bus services themselves. This shift from franchising to municipal operation has been driven by the need to cut costs. These towns and regions are explicit that they are able to make savings while maintaining services because of the absence of a profit margin. The examples in Box 1 demonstrate 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.

Box 1: Savings from municipalisation in France

When commercial bus franchises (under 'délégations de service publique', DSP) expire, some municipalities in France 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 2003, about 25 municipalities and départements have taken this step.



- In the town of Saumur (pictured, population 61,000) bus services 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”. Five years on, it is claimed that savings of 15% have been made in Saumur, whilst maintaining services.
- 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”.
- 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.
- In Saint Brieuc (population 118,000), bus services were operated by Veolia-Transdev until 2012. The local authority received bids for a renewed contract from Veolia and Keolis, but rejected both 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.
- 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.
- Other French cities that have opted for direct management or SPLs include Nice, Toulouse, Cannes and Marseille.

4 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 2 (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 'partnership' arrangements 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.

4.1 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. Once commercial operators have cherry-picked the profit from the prime routes, 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 2: A Charter for a World-Class Bus System: how well can current bus governance deliver?

	Total de-regulation	Voluntary Bus Partnership	Statutory Bus Partnership	Bus Franchising*
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.

4.2 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), payments to bus operators to carry 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.

4.3 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.

5 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.

6 Franchising powers

6.1 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 3).

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 3: 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 of the Full Report.

6.2 Making franchising the ‘default option’

Once franchising powers become available to local authorities, their introduction is likely to be gradual, with some local authorities 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.

6.3 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.

7 A step beyond franchising: re-municipalisation

7.1 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).

Vienna is an example of a city where municipal operation delivers high service quality, high cost-efficiency, and a strong basis for investing in network expansion (See Box 2).

Box 2: Municipal bus operation in Vienna



Photo: Wiener Linien; Johannes Zinner, August 2015

- Most bus services are operated by Wiener Linien, a subsidiary of Wiener Stadtwerke, which is wholly owned by the City of Vienna.
- Some suburban bus services (one-third of total bus-seat km) are subcontracted by Wiener Linien to private operators.
- Wiener Linien provides the 'guiding mind' that is required to oversee all public transport operations and future plans in order to ensure that the system works as a unified network.
- Services have been substantially expanded and improved since the 1990s: with new vehicles, longer hours of operation, and introduction of universal night bus services, complemented by improvements to the city's underground services. Further expansion and improvement of the public transport network is planned.

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 3 above, some municipalities and Départements are now switching away from franchising to run bus services themselves. 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.

7.2 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 4).

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 4: 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 of the Full Report.

7.3 'Whole network contracts' for municipal operators

Twelve 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.

7.4 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.

7.5 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.

Once franchising has become established, it would be straightforward for local authorities to move from franchising to municipal operation, at the point that franchises expired. This could be achieved economically and would lead to immediate savings, whether local authorities chose to rent a bus fleet or chose to purchase buses. In both cases they would cut out the profit margin and on purchases they would in addition be able to obtain advantageous rates of interest relative to commercial bus companies.

8 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.

9 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 (see Box 3).

Box 3: Munchner Verkehrsverbund (MVV) – Munich Transport Association



- The Munich Verkehrsverbund (Transport Association) is responsible for managing public transport in the city of Munich and its surrounding districts.
- MVV is constituted as a limited company, owned by the city of Munich, 8 surrounding district authorities, and the state of Bavaria.
- The area (and population) covered by MVV is somewhat larger than the combined area of Nottinghamshire, Nottingham, Derbyshire and Derby.
- MVV designs and develops the public transport network, sets the timetables, organises a unified multimodal fare system, provides passenger information, sells tickets online, and undertakes marketing and market research.
- Municipally owned operator MVG (Munchner Verkehrsgesellschaft) operates underground trains, trams and bus services within the city.
- MVV manages contracts for bus services on surrounding parts of the network that are out-sourced.
- 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 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.

10 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.

Box 4: Bus services in Grand Dax funded by Versement Transport (VT)



- Grand Dax (population 56,000) set up a publicly-owned company (a Société Publique Locale, SPL) to run its buses in 2012.
- VT (a local payroll tax) was raised from 0.6% to 1%, providing an extra €2m/yr.
- The president of Grand Dax justified the higher tax because *“In return, we serve all the town’s employees: all our economic zones, our health centres and major public facilities will be served by the new routes”*.
- Increased funding and new SPL has enabled:
 - Complete redesign of the bus network
 - New routes, higher frequencies, lower fares
 - Construction of dedicated busways to avoid traffic congestion (which by law allows levy of a higher rate of VT)
 - Demand-responsive services to 18 rural settlements
 - A new interchange with the train station
 - New park and ride services (at no charge)

Table 5: 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.
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.

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 (see Table 5). 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. Box 4 shows how the town of Grand Dax has used the Versement Transport to improve its bus services. The Versement Transport 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.

11 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.