

Transport Committee

Oral evidence: [Health of the Bus Market](#), HC 1425

Wednesday 30 January 2019

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Members present: Lilian Greenwood (Chair); Jack Brereton; Ruth Cadbury; Robert Courts; Ronnie Cowan; Huw Merriman; Grahame Morris; Graham Stringer; Daniel Zeichner.

Questions 380 - 450

Witnesses

I: James Carney, Finance Director, Blackpool Transport; Giles Fearnley, Managing Director, First Bus; John Godfrey, Principal Director, TAS Partnership; and Paul Woods, Interim Chief Finance Officer, North East Combined Authority and Local Government Association.

Written evidence from witnesses:

- North East Combined Authority ([BHC0138](#))
- Local Government Association ([BHC0053](#))
- Blackpool Transport ([BHC0200](#))

Examination of witnesses

Witnesses: James Carney, Giles Fearnley, John Godfrey and Paul Woods.

Q380 **Chair:** Welcome, and thank you very much for coming along to our session today. Would the members of the panel please introduce themselves for the record?

Giles Fearnley: I am Giles Fearnley, managing director of FirstGroup's UK bus division.

James Carney: I am James Carney. I am the finance and commercial director of Blackpool Transport.

Paul Woods: I am Paul Woods, the chief finance officer of the North East Combined Authority, giving evidence on behalf of the LGA, for whom I am acting as an adviser in this regard.

John Godfrey: I am John Godfrey, principal consultant with the TAS Partnership Ltd, public transport specialist consultants.

Q381 **Chair:** Thank you. We would like to start with a question to you, John. We are looking at funding for bus services. Can you explain to us the current funding streams for buses in England, outside London?

John Godfrey: Yes. Everything I say this morning will refer to England outside London unless I specify otherwise. I would like to focus on the income of the industry and its sources, because that is the ultimate determinant of the size and shape of the network. If that income decreases, within limits, where costs can be controlled and adjusted, you will get a consequent change in the level of service that can be provided.

In 2016-17, the industry's income, according to DFT statistics, was £3.423 billion. That has fallen overall by about 2% in real terms over the last 10 years. Of that £3.4 billion, 58% comes directly from passengers' pockets through fares, about £1.99 billion in 2016-17. About 23% comes in concessionary reimbursement, primarily through the English national concessionary travel scheme, or ENCTS, which I am sure is an acronym you are familiar with. Although it comes from public authorities, it is actually passenger income because it is money being paid in lieu of fares on behalf of users of the ENCTS and other concessions.

About 11% comes in public transport support payments. Most of that is payment for services operated under contract to local authorities and PTEs, but there is also some other money from special grants and so forth. Seven per cent. comes from the bus service operators grant—the central Government grant to support bus operations. It used to be known as fuel duty rebate. In England, it is still linked for commercial services to fuel consumption, but there are various other elements as well, linked to incentives for the adoption of technology. Of course, some of the money is paid directly to local transport authorities to support the tendered network.



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That is the rough size and shape of the income streams. Set against that, the total operating costs reported through the DFT survey of operators were £3.026 billion in 2016-17. That has dropped by 1% over the 10-year period but the actual number of miles operated by local bus services has dropped by 9%. There has been inflation in the costs that operators have experienced, and I am sure you will hear more about that later on today.

Ultimately, we have two sources of revenue. There are the passengers on the one hand, and public authorities either in lieu of those passengers or funding directly on the other hand.

Q382 **Chair:** Have those percentages changed much in the last decade?

John Godfrey: No, they have not changed a great deal, with two exceptions. In 2006-07, 56% of the income came from passenger fares, and the public transport support element was 16% rather than 11%. BSOG has reduced significantly as well; it was 9%. Although it is the smallest single element of the four that we have broken down, the BSOG amount has actually dropped by 22% over the 10-year period. Those are the significant changes. Concessionary reimbursement has gone up, but of course, because it is a share of the total, that is partly because it is just a bigger share of a smaller pot.

Q383 **Chair:** This question is for Giles and James, and perhaps to you as well, John. Is it profitable to run a bus service and what are the main factors affecting profitability?

Giles Fearnley: Yes, it has to be profitable, otherwise we would not be operating. The answer to the question is yes, it is. The levels of profitability vary significantly, not just network to network but within a network, route by route, time of day and so forth. I absolutely agree with what John said about the levels of public support we receive. The concessionary fares are simply reimbursement of fares income that we would otherwise have taken. We will talk about concessionary fares later, I am sure, so I will not go into that now.

BSOG is a very valuable subsidy. It particularly helps to support services that are just on the edge of commerciality. It lifts them above that piece. There have been changes to BSOG. I am particularly talking about Scotland a few years ago, when they changed the mechanism by which they reimbursed, from fuel consumed to mileage operated. There were significant unintended consequences.

The network's financial stability is fragile. Every network is made up of a whole component of route profitabilities and some degree of cross-subsidy. As an example, operators like ourselves invariably run evening and Sunday services at marginal cost because the overhead of the business is paid for during the core of the day, but on a stand-alone basis they would not be profitable. Similarly, within the day and within a route, there are times of the day—perhaps mid-morning—when buses are



relatively empty but they are still operating. They are not covering their cost, but in terms of network propriety and the marketing of the network it makes a lot of sense to run them. In some cases, it would cost almost as much not to run them, because you would still be paying the driver and would still have the vehicle.

Q384 Chair: But you are not allowed to cross-subsidise between routes; is that right? You are saying that within a route or on a particular bus you would sometimes run it at unprofitable times. Is that what you are saying?

Giles Fearnley: That's right. There are CMA rules, which clearly operators abide by, but there are some instances where routes do not cover their full costs. They cover their marginal cost. That can be particularly where one is starting a new route or operating to a new shopping centre. Clearly it takes time to build up; that is a normal business decision. Blatant cross-subsidisation is not allowed.

Q385 Chair: James, what is your experience in Blackpool? Is there anything different impacting on your profitability at the moment?

James Carney: What Giles said is an extremely good overview. I am going to talk about two specific elements of the consequences of falling revenue. The first is capital starvation. I circulated documents to the Committee beforehand about a business that I joined in 2015. You can see from the profile the age of the buses. Something like 45% of the vehicles had already reached 13 and 14 years old. That is because at some point in the past—probably about 10 years earlier—there had been a dramatic moment when income fell. The concessionary fares scheme was adjusted downward in a very large amount and route subsidies were stopped. Once capital starvation starts, a business is in a spiral at that point. We have addressed that in Blackpool. I will not prolong my answer because what we did is in the record.

The second consequence of falls in income is the labour cycle, which will be familiar to anyone who has been in a trade union negotiation or discussion about terms and conditions and pay rates. When times are hard, of course the employer explains the situation. There is always a robust argument about the situation. When the other side comes in and there is a moment when the other party is stronger, up go your unit costs. If you do not have enough staff because, as an employer, you have held down wages and the labour market turns against you, it becomes extremely expensive to recruit the next employee because you have to pay everybody more. What happens is a distortion and a quantum leap in costs.

My last point is that, if we are asking what profitability is for, one reason must be to look towards ultra-low emission vehicles. Their capital burden is much higher than a diesel vehicle, but we expect the operating costs to be lower. Time will tell, but how does the industry prepare itself for that necessary expenditure when its income is being reduced?



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Q386 **Chair:** Given the way that BSOG works, doesn't the fact that wanting the industry to adopt more ultra-low emission vehicles mean that it is inevitable that BSOG has to change to take account of that?

James Carney: Yes, and that is what I mean when I say it remains to be seen where operating costs will go, because there are compensations. Electrical energy is about 85% of the cost per kilometre of diesel, but you can see in the documents I have given you that over three years the consumption per vehicle of our fleet at Blackpool is 12% lower. It can be done with efficient diesel vehicles. It does not have to be ultra-low emission.

Q387 **Chair:** Where do you see profitability going? Is it changing? Is it increasingly pressured, or do you expect things to stay pretty much as they are?

James Carney: Given that the state is always disinclined to increase its contribution, we look towards the fare-paying customer. We have to look into our hearts. If we start to charge too much for our product, it will reduce our customer numbers further.

Q388 **Chair:** A lot of customers would say that they are being charged too much. Giles, what would you say to that?

Giles Fearnley: We are in business to carry passengers, and the only way we will have a sustainable business in the long term is to carry more passengers, but it is a tough nut to crack. The key to it is fares, and, increasingly in the world we live in, people expect good value, so we have to demonstrate that.

We focus very much on value products. There is significant discount for the regular traveller, whether that is on a day, weekly or monthly ticket, to incentivise people to travel. It is tough out there. We are dealing with a lot of changes to the economy and to people's habits, with online retailing and changing working patterns, with people perhaps working from home one day a week. The strengths and weaknesses of the local economy and congestion all put pressure on the core business model. The industry has to be more and more innovative if it is going to fight those and win new passengers. In the piece we are doing on technology, we talked to some of you when you came to Bristol a few weeks ago.

Through value and good services, we have to encourage existing users to use us more often. We have to attract new users if we are really going to fight the issues that are coming over the hill at us entirely. The biggest thing of all, which I am sure we will touch on many times today, is the congestion piece. It is crippling in so many areas.

Q389 **Chair:** One of the things that has been very obvious in transport over the last 20 years is the huge increase in the use of rail, and people wanting to make multi-modal journeys. In London particularly, an increasing number of people are cycling and walking, and they use public transport as part of their journey.



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To what extent is the bus industry trying to enable that by having good interchange and multi-modal tickets? Obviously that happens in London, but outside London to what extent is it being enabled? James, you run a tram network as well, so maybe you can tell us about that.

James Carney: We are really fortunate. We can do multi-modal because we operate both: a flexi tram network and a bus network. All of our season tickets are interoperable. There is no extra charge when you want to change. We even offer a one-hour ticket with which you can transfer from a bus to a tram.

That is the kind of innovation Giles is pointing to. When a customer can be encouraged to make a lifestyle choice, or can be selective about journeys made by public transport or their own vehicle, let's have the product they want.

Q390 **Chair:** That is easy when you are running the bus and the tram. Presumably you are not competing because they are both yours.

James Carney: I talk to myself regularly about it.

Q391 **Chair:** Giles, you run buses in Manchester, so you can tell us a bit about that. How are you trying to enable people to use public transport and make the bus part of their journey?

Giles Fearnley: Absolutely. As a business, and as with all bus operators in Manchester, we have lost trade to the extensions of the tram over the last few years. We have to put that to one side; it is all about encouraging people to use public transport and to make it as easy as we can. Multi-modal tickets are crucial to that in such areas; no question. In the industry, we certainly support those. There are so many examples around the country. There was some work a few years ago—TAS probably did it—showing that something like 85% of the population of England live in areas where multi-modal tickets are available. It is just in more rural areas that there isn't the scope, but it is important.

Q392 **Chair:** Are passengers being asked to pay such a big premium to use a multi-modal ticket that it is quite off-putting?

Giles Fearnley: The fares vary scheme by scheme. They are set locally depending on market conditions, but in most cases I do not think the premium is significant for those who want to use both modes. Clearly there are still products available for only bus travel—whether multi-operator or single operator—so the tariff is based on somebody's desire. We are in the business of carrying more people, and therefore we are not in the business of overcharging. The schemes are set at the most competitive level that the local market and the economy can bear.

Q393 **Daniel Zeichner:** James, I was very impressed by the written evidence, but how did you do it? Lots of people would love to have a new low-emission fleet. How did you manage it?



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James Carney: Are you asking me how I made the political argument or the financial argument?

Q394 **Daniel Zeichner:** The financial argument.

James Carney: You will see in the documentation that actually it reduced our costs. I had to pay the interest on the loan, which was at a commercial rate, so it was an easy decision to make. I had the benefit that the shareholder has access to historically low-priced borrowing at the moment and is more than enthusiastic to see the town regenerate.

Q395 **Daniel Zeichner:** Rather than go through an elaborate Better Bus fund and all that kind of stuff, as a municipal you could do that locally.

James Carney: Yes. There are always distortions of a market when a subsidy is offered. It is so much better when an operator can see an opportunity, draw down the funds and take advantage of them. That is a much better way.

John Godfrey: There are two things I would like to comment on. One is profitability. Since 1991, TAS has monitored the industry and produced bus industry monitor publications, using the published accounts of all the major operators. Our calculation is that operating profit, which needs to cover investment back into the business, and a tiny bit of tax of course, as well as covering the cost of capital, whether that is loan and debt repayment and interest, or dividends to shareholders, typically needs to be in the range of 9% to 11% for businesses in England.

As at 2015-16, which are the latest full accounts we have been able to get, operators in the shire areas have been unable to achieve that. On average, their return was 7.3% in that year and they have been below 9% since 2011-12. In the metropolitan areas, it is in that range; it is 10.3%. It has only been above 9% in four of the previous 11 years. You can see that the kind of profitability levels that would enable them to fully fund the sort of investments that James has made in his fleet are not being met on a regular basis in any of the areas of England outside London.

With regard to the multi-modal ticketing issue, as Giles says, we look at ticketing as well, and it is much more widely available than is perhaps generally perceived. The level of premium varies. It is sad that in Greater Manchester, which you have referred to, the biggest barrier to multi-modal ticketing has unfortunately been Metrolink, the tram system. Until very recently—within the last six months—there was actually no ticket that you could buy as a season ticket that would cover peak tram travel and bus or rail travel. That has just been rectified, but only just. The Metrolink add-on element is the one that creates the price premium on the System One ticket.

Q396 **Chair:** What about multi-modal tickets that involve National Rail?



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John Godfrey: The bus and rail options in System One are quite reasonable and have been available since the 1980s.

Q397 **Chair:** I don't mean a PlusBus ticket. Are there many areas where you can have a multi-modal ticket that allows you to travel on the train and then jump on a bus as a season ticket holder, or with a weekly ticket or a carnet?

John Godfrey: There are, because that is enabled in general, although not in every case, through the PlusBus system, which, as you may be aware, applies in several hundred locations throughout Great Britain. In most of those, there is a weekly ticket option as a bus add-on to a rail season ticket.

Q398 **Jack Brereton:** The issue, as I see it, is really one of the competitiveness of the bus over alternative means of transport. In my area, bus is competing most often with the car or even private hire. What are your considerations, particularly from the operators, about what more can be done to ensure that bus is more competitive and offers a speedier and better service? I feel that is the real challenge we are facing; the alternatives are more attractive in whatever regard than bus, so there are things that need to be done to try to make bus more attractive again.

Giles Fearnley: I absolutely agree with that. We come back to this word "congestion." Bus passengers are not happy when they are sitting, day in, day out, stuck in congestion going nowhere. Buses are not able to deviate from their route, because of their licence. Cars can perhaps take shortcuts and get away from some situations, but buses remain stuck.

One of the biggest issues that bus passengers talk about, when they talk about reliability, is the variability of journey time and not having certainty. It may be that the timetable is 20 minutes. Four days a week it normally takes 20 minutes, but one day a week on average it takes 45 minutes. People have to factor 45 minutes into their planning, and that is such a disincentive to travel.

The successful bus network, in terms of customer satisfaction, growth and contributing to the local economy, is where there is true partnership between the authority and the operator, with a shared agenda that both sides deliver. From the authority side, there has to be a commitment to taking measures to combat congestion. There are many instances around the country where measures are taken and we see volume growth almost immediately, sometimes quite substantial volume growth. Without that, we have a problem.

Of course, congestion is costly ultimately to the passenger. The key factor in the costs of our operation is the speed with which we can move the bus. If we can improve journey speeds by, let's say, 10%, we get 10% better productivity out of the vehicle and the driver. That is our cost base. We can run high-frequency services. We can run more services and carry more passengers per hour cost, and that can therefore be reflected



in a lower fares base. If we get continued congestion and buses slow down, we have to put more buses into the system simply to maintain the timetable; not to carry more passengers but just to try to maintain the numbers we were previously carrying. That adds a cost burden that has to be paid for.

Q399 Jack Brereton: Do you not think it is also about investment from the operator? What we have seen in Stoke-on-Trent is that the network has shrunk further and further. We have had routes cut off altogether, but alongside that we have only seen very small levels of investment in new fleet. Do you think it is important to have a much broader scale of investment so that more hybrid buses, and those sorts of things, come into the network, which are more attractive to passengers?

James Carney: What Giles said about the fundamentals is indisputable from an operator perspective. I would like to talk about customer experience. That is the part of the investment cycle that a bus operator is able to provide. The vehicles we buy in Blackpool have leather seats and wood-effect floors. They have free wi-fi. You can recharge your phone at the USB port. We have TFT screens that show videos of the attractions in Blackpool. We try to cross-sell with other products. That is our piece.

We have never had such an innovative time with the interior and the customer experience on a bus, and I have been in the bus business for 30 years. Of course, there is the other component—the human component. What can we provide in terms of interaction with drivers and other people—we call them ambassadors—who try to help visitors to our town find a good way to travel? A good operator app like the Blackpool bus and tram app acts as a guide to a town. It will tell you where to go, how to get there and what the price of a ticket is. It will sell you the ticket. Suddenly you have this close personal friend.

Q400 Chair: I would like to move on. We have dealt quite a bit with the importance of a good offer and marketing in previous sessions. The focus today is primarily on funding and concessionary fares.

We have heard that 42% of the income coming to buses is from the public purse in one form or another. We might like that amount of money to be increased, particularly because there has been concern about the level of funding for supported bus services in recent years, but it might not be an option. There may not be more money coming in, so how would you use the funding that is available in a better way? If you could change the current sources of funding, what would you do? Paul, you have not had an opportunity to say anything yet so I will bring you in.

Paul Woods: Obviously, we will talk a bit more about what local authorities can do as support on issues of congestion, looking at the highway network in terms of investment and bus priority measures. Perhaps we can come back to that.

Funding is a key issue for us. As we heard earlier, income means that buses can operate effectively in more areas, so securing income for buses



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is important. Concessionary travel is a key funding tool for local government and central Government. The spending on concessionary travel from the local authority side has risen since 2010 from just over £1.07 billion to £1.15 billion, so it has gone up slightly over that period in cash terms. The issue for local authorities is about the funding of that and how we get the money from Government—the visibility of that—and the impact that has on councils as funding has gone down and down every year.

I provided new evidence to the LGA recently about the size of the funding gap, which they are currently assessing. It is much larger than the previous estimate of just over £200 million. The estimate I have produced, based on a detailed analysis of year-by-year changes, is that the gap in funding is over £650 million now and will rise to over £760 million next year. That is a huge gap.

Chair: We will come back to the issue of concessionary fares reimbursement.

Paul Woods: The effect has been that local authorities have been reducing spend on supported bus measures, but it has not been universal across the country. It comes down to issues about priority and local access to other funding as well. In some areas, that has been protected and has grown because of a political agreement locally, or as part of a bus partnership agreement where it is seen as a key issue, working in partnership with operators. Funding has been going down from a local authority perspective, but it is not universal and there are some good practices and good partnership arrangements that can secure it for the right reasons.

Q401 **Chair:** What would other members of the panel change about the current sources of funding, assuming that the level of funding overall is not increasing and that is not an option?

John Godfrey: Can I come in on BSOG in particular? Reference has already been made to the change to BSOG that happened in Scotland, where it changed to a per kilometre operated payment but with an incentive for low-carbon emission vehicles, which are paid at double the rate. That seems to us to be a much more straightforward and better targeted system than the current system related to the fuel consumption of some of the fleet. It is easy to understand.

In the current system in England, part of BSOG is diverted directly to local transport authorities. We understand some of the reasons for that, but the effect is that since it happened in 2012—seven years ago—those amounts have been fossilised, irrespective of what has happened in the local bus networks in those areas. In some cases, authorities have withdrawn all bus support and have actually handed back some or all of their BSOG amount because they cannot comply with the grant condition to spend it on public transport. Cumbria County Council is one example



where they could greatly do with all sources of funding to help support the network.

A change to support the whole network again, on a clear and transparent basis, with options to incentivise certain types of vehicle or certain other actions, seems to us a much better way of distributing that section of public funding.

Q402 **Chair:** Ruth is going to ask about BSOG, but before I pass over to her is there anything the other members of the panel would change about other sources of funding, other than BSOG? We can then specifically deal with the potential for reform of BSOG.

Paul Woods: Capital investment to support investment in things that improve the highway network for buses is very important. I have been encouraged by the recent announcement about the Transforming Cities fund. That is a much larger fund to bid for. Rather than having smaller pots of money, which are quite difficult in a competitive environment, having much larger sources of funds that are more flexibly used is a step forward in the right direction. Our authority is working on a very interesting bid, to go in later this year. The fact that those single pots of money have been converted into something much larger will make it a more effective funding source over the next four or five years.

Giles Fearnley: I certainly echo what you said about Transforming Cities. From the operator viewpoint, we are very excited by the opportunities that that money can present.

Staying on that theme, we know, and it is a statement of fact, that OpEx— operating expenditure—is getting ever tighter for authorities. Capital expenditure tends to be more available. Perhaps we have to get cuter in thinking about how we can use CapEx effectively to get some long-stream objectives, not putting a lot of money into an experiment that everyone has forgotten about in two years. Thinking of the rural piece and the difficulties of tendered services in so many authority areas, perhaps we should allocate some CapEx to bus networks that existed many years ago to support the purchase of buses that operate predominantly, however that is defined, in rural areas. Something could perhaps be more available.

I have one final point in answer to the question, again staying on the tendered service piece. Authorities have powers under the Bus Services Act and other Acts to pay de minimis amounts to operators to maintain networks and run services as part of the tendered support they give. I think they can pay out up to 25% of their budget in a de minimis way. Where it works, that can be very effective, because there can be speedy resolution. Often very small amounts are enough to maintain, say, an evening service, or something that is valuable, without delays of procurement. Procurement functions in authorities are increasingly nervous of that, however, because it does not fit the standard of EU procurement, and therefore authorities are increasingly no longer going



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down the de minimis route. They are putting everything out to full procurement processes, often creating delays between a service stopping and a tendered service starting. It often creates a disjointed network as well.

Chair: Ruth will follow up issues on BSOG reform.

Q403 **Ruth Cadbury:** I just wanted to pick up the EU procurement rules because my understanding is that a lot of it is about fear of the rules rather than the actuality of the translation.

Giles Fearnley: I think it probably is. That is very fair; yes.

Q404 **Ruth Cadbury:** Certainly that was the case when I was in local government. Does anybody else want to come in on current concerns about BSOG? Should it be replaced or reformed?

Paul Woods: The LGA has a different view from the operators, as do councils. We wish to see it devolved to local authorities. We have seen good practice where that has happened. You have had evidence about Merseyside and what was happening there. Some of the BSOG has been used in Better Bus areas in funding new initiatives.

We understand the issues for operators; clearly, if they are losing income, there is an impact on cost pressure. Some routes might need to be regulated as a result, so they have to be subsidised. In our area, we have used the money that came to us in good ways, to support at local level. You can then take local decisions about which bus routes you want to support and where.

We think there is an issue for devolution. The Government are looking at the issue, and a second phase review announcement was expected at the end of 2018. We are waiting to see what that says. The LGA will clearly respond to it. In our area, if we got more devolution, we would look to have some form of local bus support, providing European rules would allow it, to have low-emission vehicles like Scotland, but perhaps with slight improvements, looking at lessons learned about what has happened elsewhere.

The LGA's view is that it can be spent better. It can be better targeted at more efficient buses, but when combined with other initiatives like Better Bus areas it can produce better outcomes. We have a slightly different view from operators on that.

James Carney: Paul, I am glad that you said operators would not necessarily agree.

Paul Woods: Because I have just heard it.

James Carney: One of the thoughts I had, which is aligned to BSOG, is the LCEB incentive for clean vehicles. The industry does not know how long that will last. Knowing that it would be, say, for the life of the vehicle, even at a tapering rate, would help investment decisions.



Giles Fearnley: Certainty over funding is so important for investment decisions. Yes, investment in new buses obviously, but also in networks and the development of networks. That is what we need above all else. We can manage change. There may be consequences of change but we can manage it as long as we have certainty going forward, so that we can run the businesses in the future for the benefit of our local towns, cities and rural communities and our customers.

Q405 **Ruth Cadbury:** This may be defeating one of the objectives, but I will ask the question that was put by Bus Users UK. Why do buses have to pay fuel duty when railways and aviation do not? Would that simplify it or would it remove any disincentive for bringing in low-emission vehicles at a time when it is already pretty difficult?

James Carney: My understanding is that, originally, that was pretty much how it worked. Thirty years ago, when I came into the industry, almost all of our duty was claimed back through the formula that is used. If politics is about distributing resources, it is a political decision. It certainly is not one that benefits an operator.

Giles Fearnley: It would not be a disincentive to invest in clean vehicles. The majority of buses in England operate in urban areas or go into urban areas from rural areas, and very shortly will have to comply with low-emission zones. The incentive is there to be good citizens, as operators, to support the clean air agenda.

Q406 **Ruth Cadbury:** The Government have spent about nine years talking about reform of BSOG and not got anywhere. What do you think is holding up the reform?

Giles Fearnley: I think it is fear of unintended consequences. In Scotland, where it was moved from fuel consumed to mileage, it was clearly designed to, and did, favour the amount of money being paid to rural services because the average journey speed is much higher and their fuel consumption per mile, per gallon or per litre, is improved.

There has been a not insignificant reduction in bus mileage in the urban areas, particularly in Strathclyde and Glasgow. We can see that, and it is a factor behind the significantly higher levels of passenger loss year on year in that area than in the rest of the UK. John, would you agree with that?

John Godfrey: Yes, it certainly does that. In a sense, it is one of the compensatory mechanisms that that system introduces; in general, we feel that rural services require more support than urban services because their passenger density is so much lower. It is a self-adjusting mechanism from that point of view.

The other main point about BSOG is that, while I acknowledge Paul's point that there has been some very good work done by some local transport authorities with the BSOG that has been devolved in various ways, the original system—the universal system—was extremely effective



and efficient in its administrative costs. About 90% of the money spent went directly into reducing costs and therefore making buses cheaper for users. We need to be very careful about diverting that into different forms of support that are likely to involve much greater bureaucracy and less effect for users at the point of delivery.

Q407 Ruth Cadbury: What effect has the piecemeal way the Government provide funding had on the industry? You touched on some points, but how easy is it to access grant funding for instance? Does it vary greatly between place and type of grant?

Paul Woods: It obviously varies depending on the nature of the grant. Sometimes, small pots of money are available only to a small number of authorities as pilots. People can bid for that. There are costs of administration in bidding for that. What happens after the pilot comes to an end? There is no certainty of that continuing. A lot of the piecemeal areas of funding can be problematic. Some areas can lose out because it will only go to certain areas as pilots. There is a kind of postcode lottery in where that funding might go and the benefits that might come from it.

Aggregating funding is more helpful. From my own perspective, having it visible as well is important, because visibility of funding, as you will hear later, is a key issue, to make sure that people can see where the funding is. Hopefully, in terms of long-term planning, they will be able to plan for the future. Because it was piecemeal it has been a problem, and there were costs in bidding for it. Also, what happens at the end of the pilots? Where is the follow-on?

Q408 Ruth Cadbury: What do you think would be the best way for the Government to encourage bus operators to get involved in broader policy areas such as accessibility? You mentioned place policies as well.

Giles Fearnley: In many of the areas where we operate, we have a very close relationship with the authorities, and combined authorities in other cases. For instance, in the Transforming Cities bidding, the networks we operate in were successful in seven of the 12 shortlisted cities. In every one, there has been a coming together to work out what needs to be done and how it can be done.

That is very effective, so the more central Government can do by providing grant opportunities for authorities, the more they will encourage joined-up thinking, planning and commitments. We have given letters of support, for instance, for each of those bids. That is very valuable because it ensures that the conclusions are drawn together, that there are no surprises and the money will ultimately be wisely spent and will fit our own investment requirements and needs, and we can plan ahead accordingly to meet the needs of the local authority. The whole thing can come together.

There is probably no better example than Leeds at the moment, where they are planning for their CAZ to come in for 2021. They have



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Government funding of about £173 million, of which they are spending £118 million on bus priorities, journey speeds, infrastructure for customers and so forth, park and ride sites and the like. In return for their commitment to spend that money, we have committed to have an entirely compliant Euro 6 fleet in Leeds—400 buses—within two years from now, which includes investment of over £70 million. We are accelerating our investment by about five years in Leeds because of the money they are spending. That has come together because we have worked together on putting in the plan.

Paul Woods: To reiterate, the partnership approach is very important. Bus operators for their part are providing higher quality buses. They invest in modern buses and make sure that timetabling is robust and frequent. From the local authority side, it is being able to draw in capital investment to do what is needed to create bus priority measures and invest in infrastructure that, hopefully, reduces some of the impacts of congestion.

Q409 **Ruth Cadbury:** Does accessibility, such as audio-visual announcements, both at bus stops and on buses, level access and that sort of thing, also need Government support or local government support to push it?

Paul Woods: It certainly needs funding. The issue is where you get the funding from. If funding was dedicated to that particular purpose, it would help local authorities to target it, but local authorities themselves are seeing the importance of that in some of the decisions that are being made on investments around the area. It is the sort of thing, capital investment-wise, that the Transforming Cities fund can do. It is about making areas more accessible to the public, whether it is buses, cycling or walking, so that is the environment people are looking at in terms of accessibility. You have to get from the bus stop to where you want to go, your destination. It is the whole journey experience, so you need capital investment. Transforming Cities is one of the opportunities to bid for that.

James Carney: Taking it down to a relatively small scheme, something like the purple pound, as it is described, is an important additional income source. The managing director of Blackpool Transport is Jane Cole. She is a bus industry disability champion working with the DFT. It is clear that retrofitting devices to buses is extremely expensive. The best time to do it is when the bus is purchased. If you are conscious about the customer experience, including someone with disablement is a natural decision to make. It does not become special; it is essential.

John Godfrey: In relation to the fitment of audio-visual stop announcements in particular, Paul is quite right that it needs funding. We may have been misled a bit by the bus statistics from the DFT. They report that in 2017-18 97% of vehicles were equipped with an AVL—automatic vehicle location—device. That is a very different thing from saying that they have a functioning location system with next-stop announcements and so forth.



While those are not hugely expensive on a per unit basis, they are prohibitively expensive to the small operator operating right at the margin, who is often the person the local transport authority relies on to provide tendered services at minimal cost, and will need considerable assistance not just to pay for the equipment and get it fitted, but for the know-how to get it up and running, look after it and make sure it is working on a day in, day out basis. The big challenge for buses all the time is producing a consistent product day in, day out, sticking to the knitting. If they cannot do that, it is money wasted.

Giles Fearnley: There is no question: fitting special equipment on build is the way forward. Anything else is prohibitively expensive. We are of course anticipating regulations very soon on audio-visual from the Department, and there has to be a fear that their requirements may be prohibitively expensive rather than being pragmatically focused.

Let me give an example. On a double-decker bus, if it is a requirement that every passenger must have the ability to see a screen clearly, it would require eight screens per double-decker bus at enormous cost. Is there perhaps a pragmatic way forward, bearing in mind that an awful lot of people who are disabled or visually impaired, whatever it might be, are unlikely to go to the top deck but stay downstairs. Perhaps only 75% of seats need that facility. It will be very clear which seats those are, so people who need the facility would know where to position themselves on the vehicle. We need to be pragmatic so that we do not overburden the industry with cost—the smaller operator and the big operator as well. Ultimately, it depends on how many buses they can buy for the money that is available. There is also the cost of maintaining those systems over their life, which can be very expensive.

Q410 **Graham Stringer:** You are not the first set of witnesses who have a decent appetite for taxpayers' money. Can you tell me what the bus industry would look like without public subsidy?

John Godfrey: Substantially smaller.

Q411 **Graham Stringer:** Can you quantify that at all?

John Godfrey: As a rule of thumb, our view is that for a given reduction in income—say, 10%—you generally need to lose twice as much in terms of mileage operated service provided, in order to balance the books, because of the effect of overheads, invisible costs and so forth. In effect, if we were to take out the 18% of the industry's income comprised of BSOG and public transport support, and just leave the fares amount, including concessionary reimbursement, we would be looking at an industry some 30% to 40% smaller in the service that it could deliver.

Giles Fearnley: I absolutely agree with what John said. An alternative would be to test the elasticity of fares and move fares up for customers who are travelling, but that is a short-term solution because we know that, if we drive prices up, ultimately people will find other modes. That



might be a short-term solution to avoid a dramatic bump, but ultimately what John says is close to reality.

Paul Woods: We just agreed our budget last week for the north-east. We are putting £15.5 million into bus support. What we are buying at the moment are buses that are not commercial. It is buses at weekends or in the evenings or in areas that are perhaps more rural within our area and are not commercial.

Our concern is about the level of fares. If the level of fares were to rise to make it more commercial, that would be off-putting in terms of competing with car travel. We are focusing on modal shift. We want to get more people out of their cars and having a journey on high-quality buses to reduce congestion and air pollution.

As a policy, we are quite happy to provide funding for the things we are getting, which is accessibility of services. If that funding was not there, people would not be able to travel in the evenings—people wanting to get access to hospitals or people who work on shifts. It supports the local economy to have a strong public transport network, particularly in urban areas where people are more reliant on being able to access work and leisure activities on public transport. The impact of not having public subsidy would be very damaging to our residents.

James Carney: Because of the inflection point that occurred about 10 years ago in Blackpool, you can see the effect in the age profile of the fleet as it was in 2015. Provincial town operators will take a last iceman strategic approach to squeeze out the last profits, and as the assets get older, eventually there will come a point when those services end.

Giles Fearnley: At the moment, it is a greater issue because of the requirements to meet LEZ needs and Euro 6 emission standards. For the industry to continue to operate in urban areas, it has to invest at a rapid rate and it has to have the certainty of funding—my point from a few minutes ago—to be able to push that investment through at the rate needed to meet those requirements and continue to serve cities and towns and enable the bus to deliver its full potential in those situations.

Q412 **Chair:** I want to ask about the opposite scenario. If you had a 10% increase in public funding for buses as a whole, what sort of increase would you get in ridership or mileage covered?

John Godfrey: I doubt that we would be able to reverse-engineer that sort of change and get a 20% increase. It would need to be deployed very smartly. I would be surprised if any of my colleagues here disagreed with the idea that, if that sort of funding were available, it should be deployed with the primary intention of increasing operating speeds so that the benefit could be locked in for the future and not simply spent now on funding additional resources to deal with ever-increasing congestion. That is the primary goal.



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James Carney: I wholly agree with what has just been said. We know that approximately half of the under-25s have driving licences compared with, say, 10 years ago. That is a ready-made target market for us. If we could get the pricing and the product right for the under-25s, and they simply delay buying a car, that is a resurgent moment for the bus business. That is where I would use the 10%.

Giles Fearnley: I absolutely agree that it needs to be targeted, and young people are a great example. Journey speed is another great example. It may well be that there are some services to areas of deprivation that are commercially viable as well.

Paul Woods: We would agree with that. We have recently reintroduced cheaper fares for young people, to attract young people on to public transport. I was talking to colleagues in Kent yesterday about the discretionary scheme they have for young people and how important it is. Unfortunately, that is not repeated around the whole country.

Q413 **Chair:** It is very patchy.

Paul Woods: More measures to encourage young people to use public transport is something we would encourage.

James Carney: It is not just fares. They have to get on a modern bus that gives them the experience they want as well.

Paul Woods: Using wi-fi to tap in and charge their phones is very important.

Chair: Yes, we heard about that.

James Carney: A feature we found on double-decker buses that attracts customers is group seating—the idea that you have a table and four of you can sit together. Suddenly, you get back to almost a semi-social atmosphere rather than regimented seats where we all look forward.

Chair: Thank you.

Q414 **Huw Merriman:** I want to focus on socially necessary bus services, as we would term them. Let's think of a scenario. A doctor's surgery or a health unit has moved, but it means that a residential area with high levels of deprivation no longer has a connection to said doctor's surgery or health unit. What can local authorities do within the existing bus services framework to protect, or indeed in my example provide, a service? What are they required to do as well?

Paul Woods: It is an example that happens too often. We have an example where a hospital is closing down, and services will have to move quite a distance away. People who would normally travel to that hospital have to go elsewhere. We have been lobbied by the local authorities as to what we can do.



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We have secured bus services budgets, so our approach is to review that and look at various priorities. If the route has a higher priority than existing routes, we would potentially look to make some changes to the route network, to try to service something that would be a higher priority within the existing budget. Clearly, if we had additional funding, we could provide those services in a secured way.

It is also about talking to the operators as a partnership. Very often a conversation with operators can enable them to slightly amend the journey or the pattern of existing routes to pick up a new destination. We have found it quite productive to talk to operators about any changes that they can make when it is clear that the pattern of travel is changing because of a need to travel to another destination, whether it is a hospital, a doctor's surgery or perhaps a new employment area that is opening up and people need to get to that employment area and have not travelled there before. It is about conversations within an existing budget and prioritisation, but additional funding would obviously be very welcome.

James Carney: Could we extend the example from a doctor's surgery to a hospital? I have given up on the tens of thousands of applications I get every year from people who say, "I want to go from my house to the hospital," assuming that we can connect them. Commercial bus operators cannot do that. We look to the local authority for assistance. Their budgets are much more than they ever were before, and we end up looking at each other, hoping there is a solution that will come from some sort of compromise. The movement of the doctor's surgery in your example ought to have taken into account access by the public.

Q415 Huw Merriman: But the very fact that the example I have given you can occur seems to suggest that regulation and legislation is not working. The Transport Acts of 1968 and 1985 seem to suggest that there is a requirement on local authorities to step in where a bus company cannot provide commercially. I think the term is, "appropriate services cannot be delivered to meet public transport requirements." We have the Equalities Act as well. It almost seems that there are a number of options but nothing quite as direct and firm as to require a step-in, in the example we are talking about.

James Carney: I can see that those Acts encourage and even place a responsibility, but they are very weak. There is no line at which a local authority has to do something. That is why they look for good will. They look for compromises and partnerships with operators.

Q416 Huw Merriman: Taking that one step further, do you think there is a role for the traffic commissioners to enforce a little more, not just looking at punctuality and how existing performance works but at what services should be provided?



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James Carney: That would take you back pre-1986, with a much more planned network, and you would open up questions like franchising. That is the modern variation of a planned network.

Giles Fearnley: I would have thought that where it works well, as in many cases it does, the local authority has the capacity and understanding of the local market to take a view. Whether they then decide to fund something if an operator is not commercially able to run it is a question for them. The planning decision has to be made by the local authority.

Paul Woods: It probably comes under the issue of national bus strategies, which we will come to a little later. If the NHS saw it as an important issue to make sure that there was a connection between people and their new destinations, there would be much greater opportunity to secure funding from the NHS as part of that decision making, or to look at public health funding as a way of ensuring that people could access the medical facilities they need, in conjunction with existing funding from local authorities and in co-operation with buses under a bus partnership agreement.

Q417 **Huw Merriman:** I want to come back to cross-subsidisation. That can exist, but perhaps not outside London, where there can be cross-subsidisation to assist socially necessary services.

James Carney: My understanding is that the 1985 Act forbids cross-subsidy. Whether it goes on is up to the individual operator. As Giles was saying, you have to take a view on your marginal costs and what the cost would be if you were to lose something. All those tactical things kick in, but as a simple legal proposition you should not do it.

Q418 **Huw Merriman:** But FirstGroup cross-subsidises routes. Am I right in saying that?

Giles Fearnley: We do not cross-subsidise. We have a number of journeys and times of day that cover their marginal cost because their full cost is covered at other parts of the day. We do not stop services at 6 o'clock in the evening because we earn less per mile late in the evening. It is part of offering a network. One of our objectives is to carry more people, and we have to offer a comprehensive network to do that.

We take a judgment as to what level of service we should operate in an area, but as a principle every route needs to cover its costs. From time to time, and very regularly, we introduce new services in the hope of generating additional business. Clearly, we take a view as to how long we are prepared to invest in a route before it is profitable. If it does not meet its growth curve, we review it.

With something like the doctor's surgery example, it may well be that as a commercial operator we would say, "Well, the surgery is moving and we are not too sure whether there is sufficient demand, but for six months we will put on a service." We would talk to the local authority and



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make a judgment at the end of six months as to whether it was something that would become permanent. We are in the business of carrying people, and we want to do that.

Q419 Huw Merriman: Mr Carney, from your perspective, how do you deal with uneconomic routes, to look at it another way? How are you able to help those run?

James Carney: Each year, we take a long look at the network. Where there are routes that are not making our profit expectations, we look first at what remedial action can be taken. If the belief is that it is not going to be effective, we withdraw the service. We have to do that to maintain our profitability and to pay our dividend.

Paul Woods: It is at that point that the local transport authority will decide whether it is able to put on a supported bus service to run the route because it is not commercial. That judgment is based on available funding and priorities. You might actually have to take buses off other routes to be able to fund it.

Q420 Huw Merriman: You think it is a judgment and not a legal requirement for them to have to provide it, as things stand right now?

Paul Woods: Correct.

James Carney: Yes.

John Godfrey: There is an issue about the definition of need. If that were more clearly defined, it could create an obligation.

James Carney: I think we are at the place of it being a permissive power. If the local authority is minded to do it, it is able to.

Q421 Huw Merriman: At the moment, there is discretion. We could move to something a little more prescriptive.

Mr Woods, I think we have touched on this. Currently the Government do not have a bus strategy. Looking at our example, there are the Total Transport pilot funds that I do not think have even got off the ground yet. There are lots of funds but there is no strategy from Government. If one was to be drawn up, what would you like to see in it, and what should the strategy say with regard to funding, and with regard to funding the socially necessary routes that we touched on? Could you be limited in your answers?

Paul Woods: From an LGA perspective, the first thing is visibility of funding. Statutory concessionary travel needs to be fully funded. That needs to be visible for a start. We would also like to see opportunities for funding for some of the discretionary transport services you have talked about. Again, they are not visible at this point in time. That is particularly in areas where people need access to hospitals, and so on. We need some clarity about that.



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We need to make sure there is a priority for bus activity and for it to be clear across Departments. We are working with the health service and CLG who allocate the funding. Having a bus strategy raises the profile of buses and says that it is actually important, particularly at a time when it is necessary to tackle air quality issues. The availability of buses is a key part of that.

It can sit alongside decisions about future capital investment. We know that capital investment decisions are being made, but, in the context of a bus strategy, there would be a lot more clarity in a joined-up approach between transport authorities and highway authorities. In many cases, a highway authority is different from a transport authority. We need co-operation between the highway authority and the transport authority for a joined-up approach to transport. Having a joined-up approach and giving it strategic priority, which a national strategy should do, would enable us to point to the NHS and others and say, "Look, there is a national strategy and you need to work towards achieving these objectives," and try to seek their co-operation to deliver the outcomes we need.

James Carney: I especially like the point you made about having a national strategy. It is a signal, a document and a statement of intent. I know you will talk about it later, but the strategy needs to make sure that local priorities are recognised within that big framework.

Q422 **Huw Merriman:** Are there any other suggestions?

John Godfrey: I could not agree more, particularly with Paul's emphasis on partnership, which is being considered in Wales at the moment with either a national or a small series of regional partnerships being enshrined in law.

It also needs to address the definition of need, and what is appropriate for a bus service. Buses are a means of mass transport. Mass need not be a very big number, but it is not appropriate in every case. Better guidance on where it will be required and where other forms of provision would be more appropriate might be helpful.

The great benefit that I can see from a national strategy is giving a coherent direction to the whole business of providing, operating, planning and funding buses. That has been lost. We have seen decimation of passenger transport units in local authorities, even in some cases in quite large shire counties. There has been a loss of expertise on the local authority side, where they are unable now to relate efficiently with operators.

We need to provide a focus that puts the bus firmly back on the agenda, in particular with bodies like the national health service, which is notorious for its inability to recognise the role that buses play in facilitating access for its patients. And let's not forget its staff. In large hospitals, staff transport is the key bus market.



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Q423 Huw Merriman: I am conscious of the time, so I have one last question just for Mr Godfrey. If we had more of a strategy, should we then have a buses regulator to ensure that the strategy is properly implemented and carried out? The traffic commissioners do not seem to have much of a role in reality, do they?

John Godfrey: We have plenty of regulation. The traffic commissioners are the right people to continue to regulate the industry. They can form an appropriate arbitration service, where the partnership elements are breaking down or there is disagreement within partnership arrangements.

Chair: I am very conscious that we are failing to stick to our timetable. We are going to need shorter questions and answers.

Q424 Robert Courts: I have a couple of brief questions on something we have not touched on. It involves the role of community transport in the strategy that we have been discussing for socially necessary services.

Particularly for those of you who are running services, I understand in some circumstances that the view will have been taken that a service is not profitable to be run by First and it is not supported by a local authority either. What thought have you given to financial support that might be possible for community services, which will help feed in passengers from outlying rural areas, such as in my patch in West Oxfordshire? That will bring passengers to the routes that you are still running and serve the social good.

Giles Fearnley: The last point you make is so important when we think about that sort of service. Nobody has the money to duplicate what is there now, so it is a question of connecting with existing services and not duplicating mileage in taking somebody from a rural outpost to the town centre. That is wholly unaffordable.

Colleague peer operators are all looking at ways to use technology to communicate with people, and they with us. We are looking at how a demand-responsive type network can be commercially viable to feed core networks. We had a particular piece called My First Mile in outer Bristol. It was to a housing development that was wholly inaccessible by conventional bus. We ran that for some months. It has stopped now and we are assessing the results. We are looking at other plans elsewhere across the UK, which will be introduced in the next few months, as are other groups, to learn how we can use technology to try to create from what we know as community transport something that can ultimately be a workable and sustainable proposition.

Q425 Robert Courts: On technology, and going back to the multi-modal tickets we were talking about earlier, could I take it that that may not mean just bus, tram and train?

Giles Fearnley: No, it could be a through ticket or an add-on, or whatever, for using a service. In My First Mile, it was initially £1 to use a taxi service for the last mile. It was very good value. It was all bought through technology on a mobile ticket. We knew where the passengers



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were, we knew where they needed to get to and we knew where they needed to be picked up. Nobody has the money to have a single resource. You have to have a very targeted use of any resources you put out there.

A lot of community minibuses are run by volunteers, and there are some hugely successful volunteer schemes, but if you are employing a driver and paying for the fuel of a vehicle, it is still a high cost. We have to ensure that we maximise the usage of that vehicle through its working time. Technology is the answer to that now. I know that is sometimes difficult for the elderly, so we have to think of something that can be pre-booked. We are very keen on exploring how we can develop what we are doing for the last mile.

Q426 Robert Courts: Others will want to add something, but this links neatly to the next question: how can Government help to facilitate that through a bus strategy? More broadly, where do you see community transport fitting into the strategy?

Paul Woods: Bus strategy should not just be about buses. It is about how people can access journeys. It is about how buses connect with other modes of transport, be it rail or taxis. There are journeys for which taxis are more appropriate. It is about looking at a whole transport solution.

We mentioned public funding earlier, but there is actually hidden funding as well for the public using transport, particularly those who are older. For example, my mother gets an attendance allowance, which is given to her to enable her to do things, and she can choose to spend it how she wants. She loves getting the bus, but at times she gets a taxi, and she pays for it out of her attendance allowance, which comes from an NHS budget. That gives an individual choice about whether to use a free bus, when they can get there, or to get a taxi that is paid for from a different public funding stream through attendance allowance.

Q427 Robert Courts: Rather than talking about a bus strategy, perhaps we should be talking about an integrated transport strategy.

Paul Woods: Absolutely.

John Godfrey: But we must recognise the limitations of community transport. It is not an infinite resource that can just be expanded or whatever. It is dependent on the availability of volunteers and so forth.

Q428 Robert Courts: Absolutely, which is why I very much talk about it linking in.

John Godfrey: This is one of the things that makes it difficult for professional transport operators to relate to community transport organisations, as well as things like the distinction in funding. Sometimes, operation under a different regime, like section 19 permits, means there



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is no direct eligibility crossover between the general public and who can use the CT service.

Then there is the issue of concessionary fares. Many users might want to make that crossover, but travelling under an ENCTS is not statutorily available on CT. Many local transport authorities are quite rightly nervous of extending it to that because of the cost implications of the demand that could be unleashed, not to mention the resource implications for CT organisations that may not be able to meet the demand from ENCTS passholders.

Chair: That brings us nicely to the issue of concessionary fares.

Q429 **Daniel Zeichner:** This is a subject that has fascinated me for many years, and now I am finally able to ask someone, "How does it work?" I am hoping that John can give us a brief explanation of how the system works.

John Godfrey: I will start off with the ENCTS, the statutory scheme under the Transport Act 2000, as amended subsequently. It has nationwide availability throughout England and provides free travel at off-peak times, defined as from 9.30 am onwards until 11 pm on weekdays, and all day on Saturdays, Sundays and bank holidays. It is for elderly people and qualifying disabled people. Elderly is now defined as of female pensionable age.

That is straightforward. There are also powers still available under the Transport Act 1985 for discretionary concessions for some other groups; in particular, young people up to the age of 18. There is the ability to extend the ENCTS model, so many authorities offer free travel for an extended weekday or perhaps half-fare travel in the morning peak period—things like that.

Its funding has been an interesting issue for many years. When half-fare concessions were made initially, and statutorily required from 2001, it was not so much of an issue because there was to some degree consensus about the key element, which was how much extra travel was generated by the concession. There was rough consensus that it was a 20% to 25% increase in travel. You could therefore build that into the formula, so that when operators were reimbursed for the money they had not collected on the bus, they were reimbursed to a level where they were no better and no worse off than they would have been if the scheme had not existed. That is the principle that still exists, underpinned by European legislation as well as domestic legislation.

Since free travel came in, first in 2006 locally and in 2008 nationally, it has become much more contentious because the sums have increased, not quite exponentially but significantly. That has been assisted in some respects by more prescriptive guidance and the calculator provided to local authorities and operators by the Department for Transport since 2011. In some ways, that has subverted the discussion. The calculator



has a number of failings, in my view, and perverse effects. As ever, the devil is in the detail.

Q430 **Daniel Zeichner:** Could you elaborate on those? We are particularly interested in the potential perverse effects.

John Godfrey: No better, no worse off in itself is not a principle that any operator would argue with. It means there is a welfare gain, because the value of travel gained by passengers is greater than the amount actually being spent in public funds. The impact of the calculator and the theory on which it is based is such that the assumed amount of generated travel is very much greater than was typically the case under the early stages of free travel. In some cases, it is down to 30% to 40% of the actual volume of travel currently being made.

No better, no worse off means that that is the amount of travel that is fully reimbursed. In other words, those are the people it assumes would have been travelling if they had paid out of their own pockets. There is another element to reimbursement: the additional costs element, which is to pay for the extra net costs that the operator incurs in carrying the remaining 60% or 70% in that case—the generated travel. It is there that most of the contentiousness arises. My personal view is that the calculator is deficient. Although the theory is based on fares elasticity of demand, it goes back to a single calculation based on the relationship between the adult fares it is assumed that the concessionaire would pay now, as compared with what they would have been in 2005-06, just before free travel started.

Conventional wisdom on fares elasticity is that even the long-term effects will all have worked through in seven years. Here we are 14 years on, and we are still taking account of changes in fares from 2005-06. Year on year, that tends to reduce the reimbursement level to operators, which does not seem right.

On the additional costs side, the whole model is predicated on looking at high-frequency urban services and trying to break it down to a unit cost per generated passenger. That is a reasonable basis for research, but because of the way it had been applied and because of the very different circumstances to which it is typically applied in shire areas, it is leading to some very perverse results. The most perverse is illustrated by the fact that the emptier your buses are—in other words, the lower your mean vehicle occupancy, in the jargon of the calculator—the higher the amount you are paid for providing additional capacity to carry those fewer people.

Q431 **Daniel Zeichner:** I am glad we are all following that. We seem to have an extraordinary situation where £1 billion-plus of public money goes in, yet both operators and local authorities are unhappy. Paul, could you tell us a bit about the lack of visibility and the gap between the £200 million and your £600 million?



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Paul Woods: I am able to give you written evidence as well. I have done a report for a national work group. I will be talking about quite a few figures, but I will supply them in writing so you will be able to see the evidence in writing, which might help colleagues taking notes. As a treasurer of a transport authority in 2001, I was able to track every time a change happened to concessionary travel, and I worked out the implications for my authority. I have also been looking at it nationally, so I have a lot of experience.

In 2001, the half-fare scheme was introduced. Parliament agreed £54 million additional funding to help with the implications of that. The base funding at that point was £467 million, so the cost and the funding were broadly even in 2000. It was broadly matched. There was additional funding of £54 million in 2001-02. It was then improved in terms of the half-fare scheme in 2003-04, which was for men aged 60. Another £50 million was added by Parliament at that point; so £104 million extra was put in.

Q432 **Chair:** I am really conscious of the time. If you want to write to us, it would be really helpful, but we need to cut to the chase.

Paul Woods: I will summarise it very quickly. There was an extra £350 million in 2008-09. There was an extra £212 million for its being a national scheme. The total funding was £1.133 billion. By the time it got to 2010-11, it was £1.194 billion. That funding is not visible now at all. It is simply part of an upper tier set of settlement funding assessments for each local authority. Some of it is retained in business rates and some of it is in grant. There is absolutely no visibility.

The LGA estimated a funding gap in 2016 of over £200 million. That was based on some very simple assumptions. The detailed work I have been able to do has been to track the pattern of spend and funding over the period. I have the numbers on a single sheet of paper. What has happened every year is that the money has gone into a general formula, and it has been cut and cut.

We had the local government settlement yesterday, with a headline figure of a spending power increase of 2.8%. People think there is more money around, but that includes council tax increases for social care. It includes council tax increases that never funded this scheme, but the grant itself, and the block that the grant was in, went down 10.6% for next year. Every year, if it goes down 8%, 9% or 10%, the figures I have now produced for the LGA, which they are looking at, show that, of the initial funding of £1.194 billion, next year there will be £431 million left. That means that all the money Parliament provided for the statutory concessionary travel scheme has gone, and more.

It is no wonder that councils are struggling. Cumbria was mentioned earlier. They have the highest cost of concessionary travel in a shire area, because people travel to Cumbria to take advantage of the beautiful scenery and the lakes. As they are coming out of the area, the boardings



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are a cost for Cumbria so it has a higher cost. Cumbria has been struggling with the loss of funding.

Local authorities have reduced bus travel as a result of that pressure, but they have very much absorbed a lot of the pressure in other budgets, and that is making them struggle at upper-tier level. Outside London, the pass-on cut for bus services has been £121 million, but the cut in funding outside London is nearer £400 million or £500 million. Councils have taken decisions to pass on those cuts to other transport services like rail—there is a lot of reduction in rail—or other non-transport services, as in the counties. That is why Cumbria has had to take some very difficult decisions.

That position is possibly about to get a lot worse in the next couple of years. A proposal announced recently was a flat allocation of funding across the country. From an LGA perspective, I cannot comment on that because it has distributional issues. I have to make sure that I am not commenting from an LGA perspective.

If you take money and apply it flatly to the resident population, authorities like Cumbria, which are paying for people outside their area, will not get reimbursed any more. It just creates a bigger gap. Funding pressure now, which is much bigger than anticipated and estimated previously, will potentially get a lot worse for some councils if the latest proposals are followed through in terms of implementation of the fair funding review in 2020-21.

It is a very live issue. The LGA will potentially be providing new evidence to supplement the evidence provided previously where they were using an estimate of £200 million as the gap. Based on the evidence I have been able to demonstrate to the LGA, from my perspective it is a much bigger gap than that, and it is all because it is not transparent.

If we had a national strategy of transparent funding, those issues and those fundings would be protected. The Department had a choice. It can make certain funding visible. It is choosing in that block of funding to make four lines visible. In fact, some of those lines have not been cut. Some of those lines of funding have been increased because they relate to social care and health. Had the DCLG prioritised the statutory funding for concessionary travel, it could have kept it visible; it could have protected it. But the DCLG chose not to do that. If DCLG had been tied into a national strategy and thought transport was important, it might have taken different decisions. I am speculating, obviously, but what is clear is that it has not been protected; it has not been made visible and it has been cut heavily. That is having effects on local authorities who have to deal with it.

James Carney: You ask why the operators are not too chuffed by this system. It does not pay us enough is the straight answer. What is the consequence? First, we know that local authorities have done all the things that Paul has just described. Where there is discretionary spend,



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as was brought out earlier about social need, the judgment is to move away from subsidising bus services, because there is a statutory responsibility to meet the bills of the concessionary fares scheme. That is the first thing that is happening.

The second thing is that, as operators, we pass on our fare increases to our commercial customers because that is our safety valve, and/or we reduce our costs when it comes to wage rounds. We try to keep down every cost we can, and that leads to big swings, where we have a shortage of labour and then potentially we are fully staffed.

Q433 Daniel Zeichner: What could we do to provide a concessionary fare scheme in this kind of way? Could the system be designed differently? I appreciate that we do not have much time, but is there a better way of doing it? Can people send us some ideas?

Paul Woods: From a funding perspective, make sure it is fully funded. The Department for Transport should administer it because they can make a direct payment to a metropolitan transport authority to reimburse the operator. At the moment, it has to go through individual metropolitan authorities or individual London boroughs. It then has to be paid into a central source. We have to levy, and it then gets passed on. It is very complex and not visible at all. The Department for Transport taking control of adequate money to fund the scheme would be a massive step forward.

Giles Fearnley: I would suggest something further. In England, there are currently 92 authorities with responsibility for administering the scheme and paying the operators. That is a huge admin and cost burden; no question. Many of them have to use consultants at a high premium cost to help them run the schemes. Sorry, John, but they do. You do a great job.

In Scotland and Wales, we have national schemes that are negotiated through and administered by the Scottish Executive and the Welsh Assembly. Should we look at having an English-wide, outside-London scheme and take local authorities right out of it? There would have to be some transitional arrangements, because currently there are very different rates of reimbursement across the country. For instance, for ourselves, operating in many parts of England, our lowest reimbursement rate is around 39% of the adult fare; our highest is around 58% and there is everything in between. No two schemes are identical.

To me, those 92 authorities administering it is a cost burden that should be avoided. All it does is sap money out of local authorities and out of the operators, because there is less money to reimburse us.

Q434 Daniel Zeichner: The Government say there are not many appeals so it must be working. Is that your view?

Giles Fearnley: We have appealed three times in the last five years and been successful in each one. The appeal process itself is challenging



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because we appeal to the Secretary of State. It takes management time. The minimum cost we have incurred on an appeal is £50,000. Where it is a more complex argument or a larger scheme, it can be significantly more than that. It is much easier for somebody like FirstGroup to handle that, but for a smaller operator it is totally out of the question to challenge in that way, let alone manage the complexities of it.

One real issue that all operators are very aware of, and past experience proves, is that, if the appeal is upheld, the independent expert appointed by the Secretary of State can look to other areas of the disclosed reimbursement arrangement and re-examine them to see whether they are satisfactory. You could be given the money with one hand but it could be taken back by another. It is a bit of a lottery.

We have appealed three times in the last five years when we were absolutely certain of our ground, and it was clear that we were worse off. No better, no worse off is an extraordinarily difficult concept to come to terms with. It is a dream for consultants and lawyers to try to argue it, but it is difficult.

Chair: You have managed to cover quite a lot of our other questions, particularly the impact of under-reimbursement for cover. Hopefully, Jack has picked out the key questions we need to ask in this section.

Q435 **Jack Brereton:** Giles, you mentioned particularly the differential rates of reimbursement across the country. Has that resulted in you having to reduce routes in some areas and change services?

Giles Fearnley: Yes, indeed. To add a little more illustration before I answer, thousands of routes in the country go across local authority boundaries, for good reason. The authority in whose area the journey originates is responsible for paying the operator. In each of those thousands of cases, the operator will receive one amount of money for the outward journey and a different amount of money for the return journey, yet they bear the same cost of operation.

Specifically, yes, the rate is a contributory factor to fare increases and the service cuts we have to make. That is a judgment we need to make when we understand the level of reimbursement year on year. Where there are significant changes, or increases do not keep pace with inflation, we have to take a judgment as to how we balance the books; no question. Therefore, we may increase fares to commercial passengers at a greater rate than inflation to try to maintain the integrity of the network, or it may push some marginal services below the line—to go back to our cross-subsidisation discussions earlier—to a point where they have to be pruned or withdrawn. That happens continuously, but sometimes the effect is much more profound.

Broadly across our businesses, taking a network, elderly people account for between 20% and 39% of passengers, but there are exceptions, and by route there can be significant exceptions. One area where we operate



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is Clacton in Essex, on the coast. It has a heavy elderly population and significant numbers of elderly people go to the area for holidays. The level of concessionary fare traffic is 60% of our total there. As a result of the low reimbursement we receive from Essex, we had to take the decision last year, in June 2018, to close our Clacton depot, which previously employed 65 people and had between 25 and 30 vehicles. We significantly cut our services in that area because the cumulative effect of the reimbursement at that level of patronage was causing the whole network to be unviable.

Q436 Jack Brereton: James, have you had similar issues with reimbursement of concessionary fares?

James Carney: As Giles said earlier, we are in the business of carrying customers. If you have a high percentage of concessionary customers on your bus, you are very cautious about making a cut in those circumstances. You know immediately that there is going to be a strong social need. Whether that will turn itself into a subsidy for the route is unlikely.

We tend to persist. One of the issues about concessionary fare customers is that they do not respond well to marketing. We have been talking about the environment and the customer experience, and one of the reasons why we like young people is that we try things and get a response. We can see a commercial aspect, but it does not work that way, and it takes a blunter tool, when you are working with concessionaires. It is literally reliability, reliability, reliability. That is what they want.

We have had to remove services where they are not profitable. The cause is often the relative increase in concessionaires on those services. That is a terrible thing to have to say, because we are in the business of carrying customers.

Q437 Jack Brereton: Some have suggested that there should be more means-testing for some concessionary fares, particularly for the older person's bus pass. How could that be implemented? What impact do you think it could have on your services?

James Carney: From an operator perspective, when somebody makes a contribution to their journey, there is a much closer commercial relationship. They want something for it. At the moment, they produce a card and travel for nothing. Why would you want anything more? If there is a payment, there is a stake in it, so I quite like that idea. On the other hand, Blackpool has a lot of people with the absolute lowest level of living. If they started to make a payment on an off-peak journey, it would lead to some hardship.

Giles Fearnley: I do not think we can comment on what would have to be a political decision. What I will say is that we regularly get passholders saying to us, whether in a public meeting or on a bus in a conversation,



"We would willingly pay you towards this journey because we can see there are not enough passengers on it and we want to sustain it." Of course, we are not able, and there is no mechanism for us, to take that payment. We are not allowed to by law, but there are people who would willingly contribute towards it because they value the bus service and want to see it maintained.

James Carney: The age of retirement is a key factor, and there is the eligibility age. The more people who are in the workplace for longer in their life, the better it is from a bus operator's perspective.

Q438 **Jack Brereton:** Some operators have suggested that the current system does not deliver on no better, no worse off. Would you agree or disagree with that?

Giles Fearnley: As I said, we have done three appeals in the last five years and won for that very reason. We did many more prior to that. In the early days, the appeals process was flooded out, and there were delays of up to two years for decisions at that time.

The fact that there are only three does not mean that we are satisfied in every other authority area where we operate, but we have to be very clear of our grounds to go to appeal, and we have to demonstrate a significant gap in funding for the independent expert to take a view.

James Carney: We all might have an individual opinion as to what the phrase means. Actually, it is the underpinning philosophy in a formula; you are arguing about what number should be in the scope of that formula. We move from common sense to a very small technical world very quickly.

From my perspective, the discount is so big—we are talking about 50%-plus—that we would not offer season tickets with that kind of discount. They are time-dated, whereas a concessionaire has no time restriction at all. If it was strictly commercial, you would not credit them with that level of discount.

Q439 **Jack Brereton:** How is that affecting your profitability as companies? Is it having an impact?

Giles Fearnley: It is. The lower the reimbursement, the more it affects us. As I was saying, we either accept a lower level of profitability, but that has impacts on our ability to invest and be sustainable, or we do the unpalatable, by looking at increasing fares or reducing the scale of the network, which of course itself then goes against the whole policy of the loneliness agenda of elderly people being able to travel. It can be counterproductive, but we have to take a decision on the facts because there is nowhere else to turn if money is not coming fairly from the local authority in whose area we are operating.

Chair: We are pretty clear that the reimbursement is not satisfactory to the bus operators and that it has a wider impact. We want to come on to



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questions about the issue you touched on, Paul, which was transparency.

- Q440 **Grahame Morris:** You have covered some of the ground, but I was reflecting on a miner's banner from Murton, the village I am from in Durham. The slogan is "Knowledge is Power". One of the problems for the Committee is getting reliable data about how much the concessionary fare scheme costs, and how much is funded by the Government.

Paul, in your initial remarks you gave us some figures. We have received evidence that central Government are underfunding the concessionary fare scheme. You said that 23% of the overall budget was reimbursement of concessionary fares. You suggested that one way we might get more out of the system would be to take back control from local authorities and have a national scheme. What are your views on that?

Paul Woods: Clearly, the gap in funding is a critical issue. If the Department for Transport could actually take more control over the funding, it would be a real step forward, but it needs to be fully funded.

We have done some figures for Durham. We currently estimate that the gap in Durham is about £8 million. That is the difference between the cost of concessionary travel and funding, which is absolutely huge.

- Q441 **Chair:** Paul, is that accepted? I appreciate that you have done work to show what you think the gap is, but is there any broader evidence that people will be able to draw on and say, "Yes, Paul is right and that's right across the country"?

Paul Woods: There should be.

- Q442 **Chair:** Where would we find that evidence?

Paul Woods: The evidence I have provided went to the national working group last year. I have provided those charts for the last 10 or 15 years to the Department. I have provided evidence to the LGA, and they are looking at it and potentially could well adopt it as a new number.

The only evidence I have found that individual authorities could work on was a background document in 2011 when concessionary travel was transferred from the environmental, protection and cultural block to statutory concessionary travel. A background document produced a cash figure for every single local authority. The cash figure for Nottingham is visible in that and I have the figure. It is £9 million and a bit.

At that point, there was a cash figure visible to local authorities, but it was in a background document to the national settlement. I doubt that many people would know it exists now, but I have a copy and I know it is there. You then extrapolate every year to work out how the number has changed to arrive at a final figure.

It is possible. I have shared my assessment with London. After that, London independently did their own calculations, which matched the pattern of reduction since 2013-14, so I am fairly confident that the



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figures are pretty accurate. They are based on estimates that within the block every reduction is the same for every single piece of that block. That is the only assumption you can actually make, because of how it has been adjusted, so it is an estimate, but I think it is a very good estimate.

Hopefully, that will be confirmed shortly by the LGA when there has been a chance for it to go to the political side of the LGA and they can confirm the numbers. I have shared the numbers locally. I am a member of the Association of North East Councils, or my organisation is, and I provide analysis to them, so I have provided that analysis to Durham. I have also provided analysis of the impact of moving to a flat residential population area.

Q443 Grahame Morris: It is £8 million for Durham, but what is the figure for the seven combined authorities?

Paul Woods: There is a £29 million gap for the North East Combined Authority area. The further change that has been proposed could increase that gap by £11 million. We are currently supporting £15.4 million in supported bus services. If we have another £11 million gap, how many of those bus services will be left? I cannot say. We are prioritising protection of the supported bus, but where do we go? It is one of our biggest discretionary forms of funding. Once we have cut everything else, we have to revert to supported bus.

Q444 Grahame Morris: I was a bit alarmed by Giles's comment to my colleague Graham Stringer. When asked, "If you had an extra 10% of public subsidy, what would you do?" he said he would prioritise speeding up the routes. One of your colleagues said that he would target the under-25s.

Paul Woods: Young people's discretionary travel, yes.

Q445 Grahame Morris: My concern, coming from Durham, is that we have virtually no buses on a Sunday. We have very few buses in the evening in the east of Durham. When the concessionary fares system was introduced, wasn't the whole premise that it was to try to improve the lives of people who were disadvantaged, such as older people and people on low incomes? If we were devising a new scheme starting from scratch, would we do the same thing? Do you have any particular thoughts on that?

Paul Woods: With a new scheme, rolling back to when it was introduced, the issue for me is the lack of visibility of the funding. If you have visibility, potentially the cuts that have been made to travel in rural areas, as well as in urban areas, might not have happened to the same degree over that period because there would have been visibility.

As well as visibility, you need protection. If the funding was protected as well as being visible, I think that would have made a huge difference. If Durham had not had that cut of £8 million, the amount of bus support it could have given to its outlying rural areas would have been substantial.



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Its supported bus budget at the moment is only £2.5 million, so £8 million would make an enormous difference to Durham.

John Godfrey: You mentioned the lack of evening and Sunday services. In relation to ENCTS users, evening services are poorly patronised anyway, which is why they are not commercial and often need local authority support. In terms of usage patterns by passholders, their usage in the evening drops off even more rapidly than that of fare-paying passengers.

Even though bus services may be confined to weekday day times, the scheme is still achieving the vast bulk of its objective. The evidence for that, of course, is largely anecdotal, but it comes from many sources, be that organisations like Age UK or community transport organisations and other operators. It is certainly achieving its aims of improving mobility and social access for passholders way beyond what they would be able to achieve without it.

Q446 **Chair:** If there is a bus for you to use your pass on.

John Godfrey: If there is a bus for you to use your pass on.

Q447 **Chair:** On concessionary fares, you have both, James and Giles, talked about the importance of getting young people using the bus. Obviously, there is a patchwork across the country in terms of the levels of concession and what age they operate to. Is there any support for a statutory concession for young people? Given everything that has happened, would you just say, "No, we want it to be discretionary"?

Giles Fearnley: If the funding was truly available and was not taken from another funding pot that gave us an automatic adverse, it is something that should be readily explored. It is a great market. They are the bus users of tomorrow and we need to help them in all forms of the economy, as we know. We need to support young people.

There is a scheme in Wales that had very disappointing take-up. It has been relaunched, which was interesting. It cut across and did not work with schemes already in place. As you say, a number of schemes are currently subsidised. We operate in Manchester, West Yorkshire and South Yorkshire where we get a degree of reimbursement for giving a cheaper fare, but we also operate a number of our own commercial schemes, up to the age of 21 in some cases, where there are sufficient young people in an area with a propensity to travel to make them commercially viable. We are learning all the time how we can continue to push the boundaries. Anything that can be done in a wider sense has to be welcome for that group of people, in my view.

James Carney: If I take the slightly cynical view that money is only ever going to come into that area from somewhere else, I think this is an area where bus operators are most willing to experiment and start with small schemes. In Blackpool, we have the young person's ticket between 16 and 19. We think carefully every year about extending it to 21.



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Q448 **Chair:** What is the concession for 16 to 19-year-olds in Blackpool?

James Carney: At 16, ordinarily you pay an adult fare. We have a fare that is between child and adult.

Q449 **Chair:** Is it the same as a child fare? Is it half or two thirds?

James Carney: It is closer to the child fare than it is to the adult, but it is none the less an increment. It makes it commercially difficult for us to extend the age because we take people out of the adult fare-paying group. That is where the support would come in. Maybe I am offering a personal opinion, but that is a decent commercial decision to make if you are thinking about the long-term profitability of your business, providing that you can do it in that incremental way.

What would be a disaster would be something like, "You must provide this service, and the rate of reimbursement is going to be something similar to the concessionary fare scheme." That would be a backward step.

Q450 **Chair:** Would it be unreasonable for the Government to say, "Look, we have increased the leaving age for education and training from 16 to 18, so you should extend your child fare to the age of 18 or 19"?

Giles Fearnley: It would put more pressure on the finances of the network. If we were able to generate, as a result of doing that, sufficient additional passengers without additional costs to pay for it, it is something we would commercially do. It is an extension of what you have been saying, James, and what we do in many areas, but as a requirement of us it would have consequences.

James Carney: We are slowly going there anyway. You used the words "child fare", Chair. That gave me the heebie-jeebies, but I think you take the point that we are most willing to discuss how to get more young people as customers. The price mechanism is an effective one.

Giles Fearnley: Normally, when we do something above 16 it is two-thirds fare. It is worthwhile discounting, and if somebody buys a multi-ticket, the discount becomes even greater, because they get a discount on the single fare.

Chair: Thank you very much for giving evidence today. That concludes our session.