



National Audit Office



Delivery Chain Analysis for Bus Services in England

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

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This report is based on a joint study conducted by the Audit Commission and NAO, one of a series that looks at the “delivery chains” between important national policy intentions (set out in government departments’ Public Service Agreement targets agreed with HM Treasury) and local delivery.

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2 December 2005

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ANALYSING DELIVERY CHAINS

1 Improving the quality and provision of public services has been a key governmental priority for many years. As more money has been provided, the public has expected to be able to choose from a wider range of better, locally-delivered services. At the same time, there has been the need to manage the delivery of those services more efficiently. As part of the 2004 Spending Review, Sir Peter Gershon identified scope to achieve efficiency savings across public expenditure of at least £20 billion by 2007-08. This has caused departments to look closely at how they operate and provide services, with each having to specify how they will secure the savings for which they will be accountable.

2 This focus on efficiency has complemented the range of performance management tools introduced across central Government and the wider public sector in recent years to improve the effectiveness of local public services. In particular, in 1998, the Government introduced Public Service Agreement (PSA) targets, linking funding, for the first time, with the performance expected from departments and their partners at national, regional and local level.

3 The Spending Reviews in 2000, 2002 and 2004 have gradually refined the target-setting process. The number of PSA targets has reduced from 600 in 1998 to 110 in 2004. And targets have increasingly focused on outcomes – for example *reducing crime* – instead of on inputs, processes or outputs such as *more police on the street* or *better utilisation of court time*.

4 These developments to improve the efficiency and effectiveness of local public services are welcome. There is consensus in government and more widely that fewer, more outcome-focussed targets reduce the risk of the unintended consequences which come from measuring inputs or processes. This understanding, combined with a sustained drive for improved efficiency, provides a fresh opportunity for departments to review their PSA targets and the means by which they can best be delivered.

5 More sophisticated outcome-focussed services, better tailored to the diverse and local needs of the public, can rarely be achieved by one organisation alone; instead they require close partnership working between different organisations at national, regional and local levels. These relationships, ultimately linking the responsible ministers to the frontline health worker, school teacher or police officer, have become known as the delivery chain, echoing the business concept which refers to the network of systems, processes and organisations through which strategic objectives are achieved.

6 Such complex delivery arrangements, if not well managed, create significant risk that resources, far from being more effectively targeted at citizens' needs are lost in confusing and wasteful administrative activities. Thus, as delivery chains have become more sophisticated, involving a wider range of organisations of different kinds, the need to understand them better, and to make them more efficient and effective, has become increasingly evident. Some long-standing delivery chains are strong and clear and more likely to succeed. Others, less developed, have struggled to meet the requirements asked of them.

7 This forms the backdrop to three joint studies examining the delivery chains associated with particular PSA targets. Here the Audit Commission and National Audit Office, through their different perspectives at local and national level, and by combining their knowledge and expertise, have examined the delivery chain associated with a PSA target for increasing the use of buses¹ – from the challenges faced by the owner of the target – the Department for Transport – through to the actions being taken by local authorities and commercial bus operators and by the independent statutory Traffic Commissioners.

8 There is a separate similar report on the delivery of affordable housing and a third, prepared in conjunction with the Healthcare Commission, on child obesity.

9 Our aim in producing the three reports is to examine the characteristics of the specific delivery chains, and their capacity to deliver the PSA target for which they were designed. In so doing we identify ways in which the various parties involved in the chains might work more closely together, as well as suggesting ways in which the target might be achieved both efficiently and effectively. An analysis of the delivery chain as a whole facilitates this by recognising that, whilst individual links in the chain may be effective, efficiency across the longer chain can still be improved. We intend these lessons to play a role in assisting those designing and implementing PSA targets in future.

10 We also intend to produce a fourth report to be published in early 2006 in which we will bring out issues of more general relevance to the ways that public sector delivery chains are constructed and how they can best operate.

¹ To increase passenger numbers on buses and light rail by more than 12 per cent by 2010 compared with 2000 levels, with growth in every region.

ABSTRACT

Introduction

- 1** There has been a sustained growth in traffic across the country since the 1950s, bringing increased congestion and vehicle emissions which contribute to climate change. At the same time, bus use has steadily declined, as rising economic prosperity has led to increased car ownership. The personal convenience of car travel and a decline in the cost of motoring have made travelling by bus less attractive.
- 2** Bus services in London are provided mainly by commercial bus-operating companies, under contract to Transport for London (TfL) working to the Mayor's Transport Strategy. Elsewhere, commercial bus operators register the services they wish to provide, based on commercial considerations. Local transport authorities secure any additional services to fill in perceived gaps in the commercial network.
- 3** As part of its ten-year transport strategy in 2000, the Government set a Public Service Agreement target (PSA3), which it has subsequently amended, to increase bus and light rail usage by 12 per cent in the ten-year period between 2000 and 2010, with the additional challenge of achieving growth in every English region. The Audit Commission and the National Audit Office undertook a joint study to examine whether the delivery chains for achieving growth in bus passenger numbers are efficient and fit for purpose.

Findings

- 4 The target for overall growth in bus usage is likely to be met but it is unlikely that there will be growth in every English region.** Nationally, bus and light rail usage has increased by 8 per cent in the first four years to 2004-05, suggesting that the overall target for growth will be met. However, this is almost entirely due to the growth of bus usage in London (which currently accounts for 44 per cent of all bus travel in England). All of the other English regions show continued decline, averaging 7 per cent.
- 5 The delivery chain for the target is fit for the purpose of achieving growth in passenger numbers inside London but is more complex elsewhere.** In London, the significant growth in bus usage has been in part due to the Mayor and TfL's strong and consistent commitment to introducing the packages of measures that support growth and increased investment in bus services, coupled with a straightforward delivery chain. Outside London, the delivery chains are not as straightforward – local authorities are accountable for the target but do not have direct influence over the 80 per cent of services provided commercially. Some locations outside London, such as York or Brighton, show that significant growth in bus usage is possible where the local authorities, bus operators and other stakeholders are strongly committed to putting in place packages of measures to increase bus use. If

one or more key stakeholders do not have sufficient commitment, however, then this makes it harder for the remainder of the delivery chain to deliver growth. There are provisions for transport authorities outside London to apply for powers to change to a delivery chain more like London's, but to date these have not been invoked. The Passenger Transport Executives consider the preconditions are too onerous.

6 There is scope for efficiency savings outside London through the better administration of concessionary fares and improvement in the procurement of socially-necessary bus services.

Outside London, concessionary fares are negotiated between authorities and the bus operators in their area, and there have been many local variations on the national minimum requirements. The total cost for local authorities of administering these schemes is estimated to be £16 million. Ideally, a more streamlined set of processes that is more closely linked to transport objectives could achieve significant efficiency gains of up to £12 million for authorities, and further gains for operators, although there might be practical obstacles preventing such gains from being realised. Many authorities outside London can also achieve significant efficiency gains of up to £26 million through the systematic review of socially-necessary bus services and better methods of procurement, notably through the packaging of contracts, longer contract periods

and joint procurement with other authorities. Further efficiencies are also possible through better procurement of infrastructure such as street works and bus stops and shelters. More efficient procurement of public services is at the heart of central and local government's response to the Gershon agenda.

7 Regulation is both tightly managed and effective inside London, but there is scope to make the unregulated market outside London work better.

In London, there is effective regulation of service provision both through the contractual arrangements employed and through the manner in which these are operated. Outside London, operators have a commercial incentive to address the reliability and punctuality of local bus services for passengers. But there is scope to make the market more effective by making performance information more readily available and transparent to local communities. The independent statutory Traffic Commissioners regulate operators' compliance with their operating licences and, by investigating passenger complaints, the reliability of registered services. But the Commissioners do not routinely receive information to enable them to target their formal monitoring of commercial services to where it is most needed.

EXECUTIVE SUMMARY



1 In its *10 Year Plan for Transport* in 2000², the government set a target to increase the number of passenger journeys on buses in England by 10 per cent by 2010, while at the same time improving the punctuality and reliability of bus services. The government sought to reverse a decline in bus use experienced over the previous 40 years both before and since deregulation of bus services through the Transport Act 1985, which resulted in commercial operators providing bus services, in some cases with financial support from local authorities. The Government has attributed the decline in bus use primarily to rising economic prosperity, leading to increased car ownership, alongside a steady increase in the cost of travelling by bus relative to the cost of motoring.

2 The Department for Transport (the Department) has revised the target twice – in 2002, and again in 2004 – and now aims to secure a combined increase in passenger numbers on buses and light rail of more than 12 per cent by 2010 compared with 2000 levels, with the additional challenge of achieving growth in every region. The underlying rationale is to improve the availability of public transport as a means of tackling social exclusion, and contribute to the government’s wider transport objectives of tackling road traffic congestion and reducing vehicle emissions that contribute to climate change. Over the four years to 2004-05, passenger journeys on buses and light rail have grown by nearly eight per cent, principally due to increased bus use. Bus use in London increased by 32 per cent, and in 2004-05 accounted for 44 per cent of all bus use in England. Bus use has, however, fallen by seven per cent elsewhere in England (**Figure 1 overleaf**).

The purpose of this report

3 This study, undertaken by the Audit Commission and the National Audit Office, is one of three joint studies of the efficiency of the funding and delivery arrangements, known as the “delivery chains”, for achieving selected Government Public Service Agreement (PSA) targets. It examines the roles of central and local government in funding, procuring, regulating or otherwise supporting the provision of bus services and assesses whether the delivery chains are fit for the purpose of delivering growth in bus use cost-effectively. The other two studies examine the delivery chains for the government’s PSA targets on reducing child obesity and achieving a better balance between housing availability and demand.

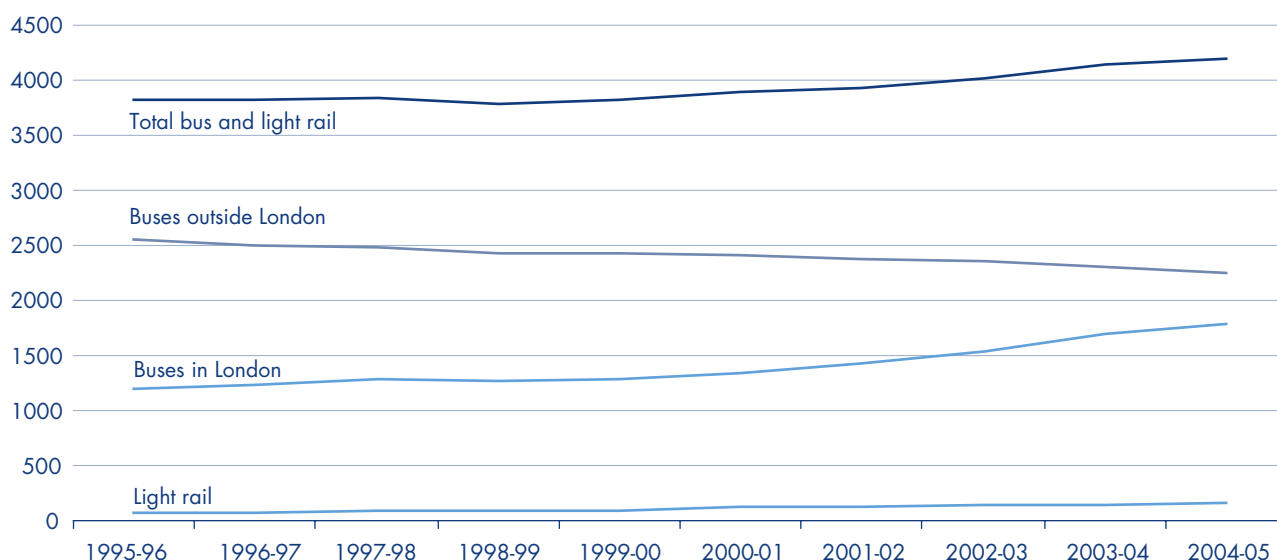
4 The government sets overall policy on bus services, including the regulatory framework, and provides some funding (**Figure 2 on page 12**). The Transport Act 1985 provided for private sector bus operators to deliver services, on the grounds that commercial incentives would achieve efficient services responsive to passenger demand. Outside London, nearly 80 per cent of the bus network is determined and provided by commercial operators on a commercial basis. The other services, which are also predominantly run by private operators, are supported financially by local authorities to complement the commercial services. In London, in contrast, bus services are regulated and planned by Transport for London (TfL), and mostly provided under contract by private operators. We focused attention on the range of inputs for bus services within the delivery chain, the procurement of bus services and measures being adopted to increase demand for bus services.

² *Transport 2010: The 10 Year Plan*, July 2000.

1 Passenger use of buses and light rail, 1995-96 to 2003-04

Since 1995-96, bus use has risen in London but continued to decline elsewhere.

Passenger journeys (million)



Source: National Audit Office analysis of Department for Transport statistics

5 The market for the provision of bus services is heavily concentrated in the hands of a small number of national bus operators. Three operators account for more than half of the market, while two other groups account for a further 15 per cent, resulting in the top five operators accounting for two-thirds of the market. Smaller, locally-based operators provide the remainder of bus services.

6 In 2004-05, public revenue spending on bus services totalled some £2 billion, including £854 million support from Transport for London and local authorities, £359 million on Bus Service Operators' Grant and £469 million to pay for concessionary fares and £350 million on school buses. The bus industry's turnover was estimated to total between £3 billion and £4 billion in 2002-03.³ The Department aims to achieve efficiency gains of £77 million by 2007-08 from local authority revenue spending and £45 million from capital expenditure on local transport. TfL has set a target of achieving efficiency gains of £159 million by 2007-08

from its expenditure, in addition to savings from the London Underground PPP arrangement. The efficiency gains would release resources for frontline transport service priorities, in line with the recommendations for improving efficiency made by Sir Peter Gershon in his July 2004 Review of Public Sector Efficiency. Local authorities are expected to determine where to make savings from across the services they provide, although the Department has advised them of its view that there is scope for savings from the cost of supported bus services, administration of concessionary bus fare schemes and local capital projects. Authorities are required to produce annual efficiency statements for the Office of the Deputy Prime Minister setting out their plans and achievement of savings. All authorities are also subject to Comprehensive Performance Assessments by the Audit Commission, which examine authorities' ability to deliver their statutory duty of continuous improvement, including whether they use their resources efficiently, economically and effectively.

3 TAS Bus Industry Monitor 2004.

What we did

7 The National Audit Office reported on light rail systems in April 2004 (HC 518 2003-04), highlighting significant shortfalls in patronage compared with expectations. Further, with only seven light rail systems currently in operation and with few new systems likely to become operational before 2010, light rail's contribution to the Department's target is limited. Achievement of the target at both the national and regional level will depend overwhelmingly on growth in bus use. We therefore excluded light rail from our examination. Against this background, a joint team from the National Audit Office and the Audit Commission examined:

- whether the delivery chains for bus services in England are fit for purpose; and
- whether there is scope for making bus service delivery more cost-effective.

8 The recent trends in bus use and the projections for the remainder of the PSA target period suggest that there are comparisons to be made between the strong growth in London and the isolated growth elsewhere. We have sought to identify the main success factors and assessed the extent to which they might be adopted to increase the chances of achieving the target across England.

9 We started our examination by holding a series of workshops with the main government and bus industry stakeholders to map and critique the delivery chains, including the working relationships between organisations, funding streams, information flows and accountability arrangements. We used the results to inform five case studies covering London, two shire counties, a unitary authority and a Passenger Transport Authority. We also carried out a survey of a selection of local authorities to obtain a wider perspective on the key issues. Further details of our methods are in the Appendix.

Findings

The Department drew up a detailed delivery plan and understood the risks to delivering the target for passenger growth

10 The Department has developed a clear national delivery plan, which it has revised and refined over time, but not published. The delivery plan identifies key factors that, if addressed, would encourage people to use buses, and highlights key risks to delivery. Some of the key risks, such as new development patterns, the cost of motoring, and parking availability and price, lie outside the direct and immediate control or influence of stakeholders involved in the delivery chain for bus services, although some can be influenced through other national and local government policies. The Department ascribed the highest risk to a widening of the gap between the generalised cost⁴ of using public transport and the lower cost of motoring, with the risk of rising bus industry costs contributing to pressures on bus services and fares. The Department also recognised that much of the delivery chain was in the hands of private sector bus operators and was therefore difficult to influence directly.

11 The Department drew on its contacts with local authorities and the bus industry in preparing its plan, but did not formally engage with all key parts of the delivery chain or review whether the existing delivery chains were fit for purpose, for example to deliver the improvements in quality of service that might encourage people to use buses. More recently, it reviewed the fitness for purpose of bus subsidies, encouraged transport authorities to adopt bus use targets in their Local Transport Plans⁵, formed a Bus Partnership Forum⁶ to bring local authority, industry and other stakeholders together to address factors affecting bus use, and in January 2005 established a new directorate within the Department to work more closely with local authorities.

⁴ Generalised cost measures full economic cost, including cash costs such as fares, parking charges and fuel, as well as opportunity costs such as time spent travelling and waiting.

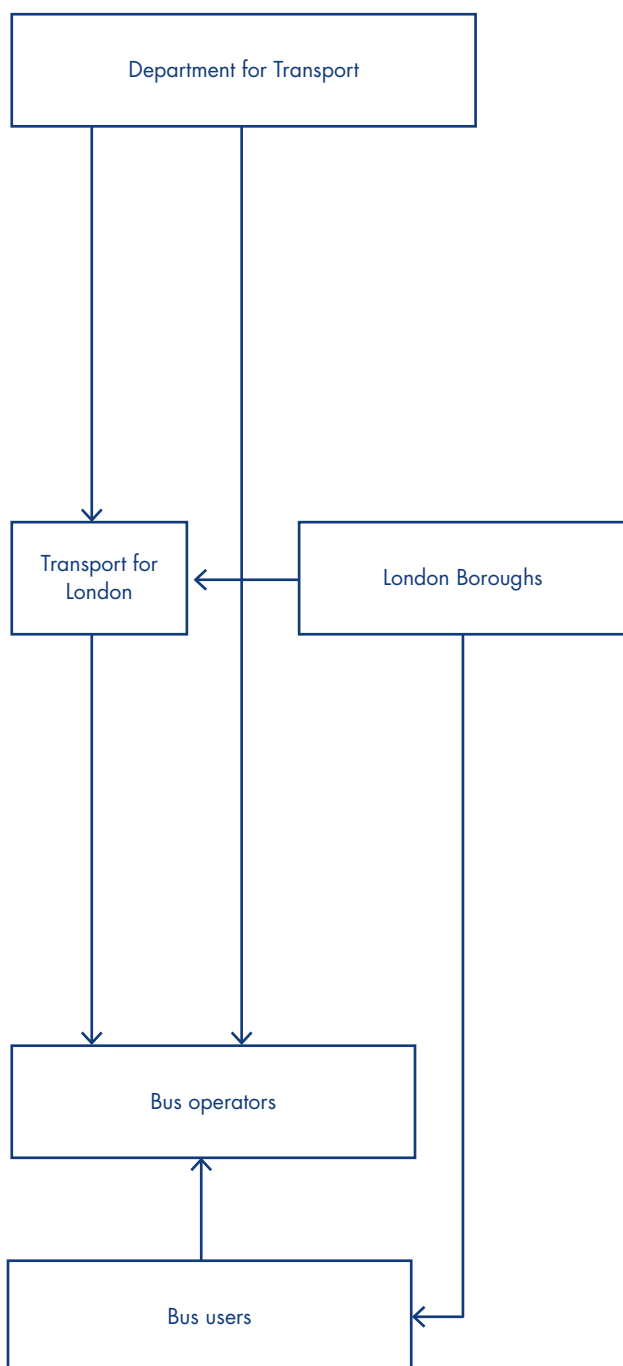
⁵ Local transport authorities produce five-year Local Transport Plans, including separate but linked Bus Strategies and Information Strategies, setting out their transport strategy and five-year programme for capital investment and the level of capital funding from government required to deliver the programme.

⁶ The Forum consists of senior representatives from the bus industry, central and local government: the Confederation of Passenger Transport; the Local Government Association; the Association of Transport Co-ordinating Officers; the Passenger Transport Executive Group; and the Department for Transport.

2 The delivery chains for bus services in London and outside London

Transport for London has direct responsibility for bus services in London, whereas outside London local authorities have direct responsibilities only in relation to the 20 per cent of services they subsidise.

In London



The Department for Transport

- sets national strategy and target;
- provides funding to Transport for London; and
- provides funding to operators through the Bus Service Operators Grant.

Transport for London

Delivers the Mayor's Transport Strategy through

- contracts with operators to provide bus services;
- investment in bus priority and other measures on its roads and Borough roads; and
- performance monitoring, including monitoring the performance of operators.

London Boroughs

- fund the London-wide concessionary fares scheme;
- provide funding for TfL through the precept;
- invest in and enforce bus priority on borough roads; and
- set local policy for parking, land use and planning.

Bus operators

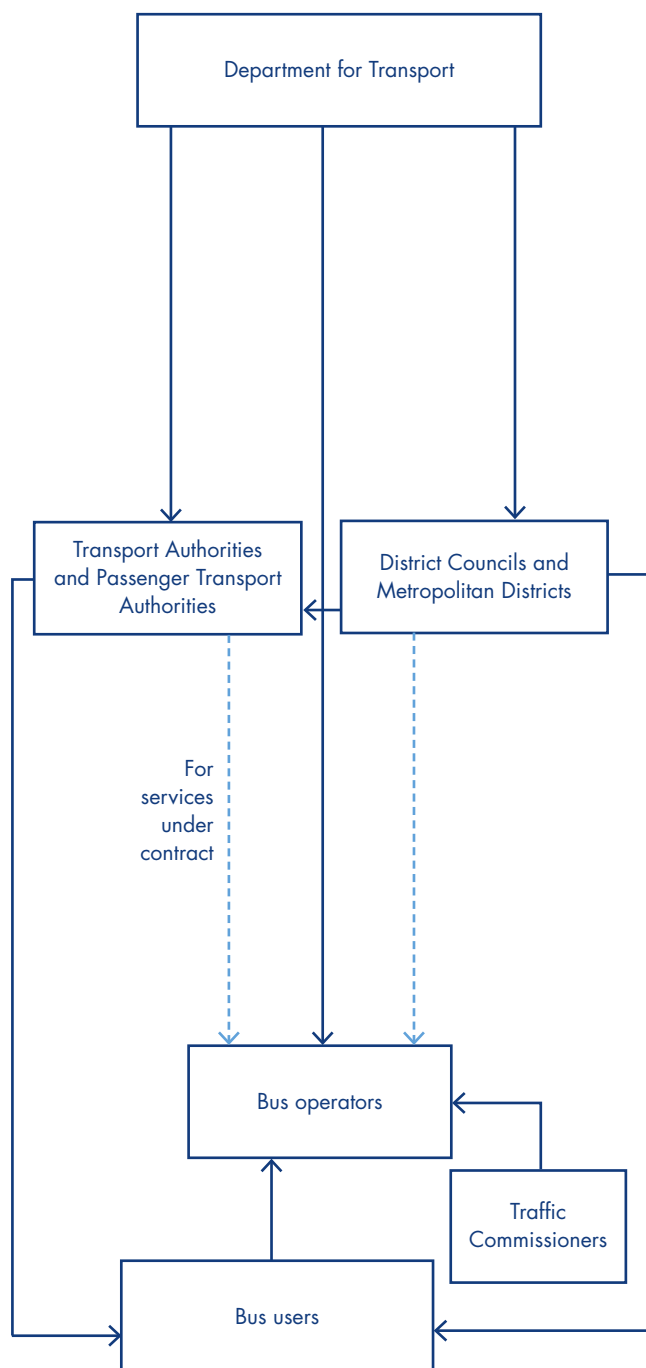
- provide bus services paid for by TfL under contracts and report on their performance to TfL; and
- collect fares and pass to TfL.

Bus users

- pay fares to the bus operators; and
- travel free using concessionary fares pass.

Source: Joint National Audit Office and Audit Commission bus industry workshops

Outside London



The Department for Transport

- sets national strategy and target;
- provides capital funding to Transport Authorities;
- influences the amount of highways revenue funding provided by ODPM to all local authorities in the Revenue Support Grant; and
- provides Bus Service Operators Grant to operators.

Transport Authorities (County Councils and Unitary Authorities)

- set Local Transport Plans in agreement with Districts;
- contract for operators to provide socially necessary bus services to complement commercial services; and
- invest in bus priority measures.

District Councils

- negotiate and fund concessionary fares schemes;
- set local policy for parking, land use and planning;
- contract for operators to provide socially necessary bus services to complement commercial services; and
- invest in bus infrastructure.

Passenger Transport Authorities

- set Local Transport Plan in agreement with Districts;
- negotiate and fund concessionary fares; and
- contract for operators to provide socially necessary bus services to complement commercial services.

Metropolitan District Councils

- invest in bus priority measures; and
- set local policy on parking, land use and planning.

Bus operators

- provide services commercially (some 80 per cent of routes in 2003-04); and
- provide services under contracts with local authorities.

Traffic Commissioners

- licence operators, register routes and monitor operator compliance.

Bus users

- pay fares to the bus operators; and
- pay reduced fares while travelling using concessionary fares pass.

12 The plan identifies actions to achieve passenger growth, but does not assess the extent to which such growth would contribute to the PSA target's underlying objectives of tackling congestion, vehicle emissions and social exclusion. The Department encourages local authorities to include community transport, school buses and coaches in their Local Transport Plans, incorporating them into their wider public transport policies to meet local needs and priorities. Including these forms of transport in the target might have further increased the incentive for authorities to use them to contribute to delivery of the target's underlying objectives.

The Department has worked with stakeholders to deliver the target, but its financial levers are limited

13 The Department has worked effectively with stakeholders at national level, and also with Transport for London. Engagement outside London, however, has until recently been weak. During the period of the first Local Transport Plans, the Department relied on the ambitions and priorities of local authorities and commercial bus operators to deliver increased bus use. We identified local transport issues that authorities need to address in order to bring about an increase in bus use and hence the factors that the Department should be assessing in their review of local authorities' Local Transport Plans and performance (Figure 3). With the introduction of its new Directorate, the Department has strengthened its review of Local Transport Plans, and is now addressing these factors, including challenging local authorities to set their own targets for growth in bus use, to meet local conditions. The Department has also sought commitment to improved service quality through its guidance and work with the industry.

3 Issues local authorities need to address in their Local Transport Plans

Local Transport Plans need to:

- be founded on strong leadership and commitment to improving public transport, a comprehensive understanding of what is required to change travel behaviour, and the building of partnerships with operators and neighbouring local authorities;
- show how targets for growth in bus use are supported by a robust package of measures to increase demand for buses alongside complementary measures to restrain car use and clear plans for their financing and delivery;
- consider authorities' work with operators, and where applicable show what consideration has been given to the case for the implementation of Quality Contracts to bring about an improvement in bus services and patronage, consistent with local transport and bus strategies; and
- show how the Transport Authorities will be working with the Metropolitan District Councils and District Councils to achieve increases in passenger numbers and to identify and tackle inefficiencies arising from the overlapping of responsibilities in subsidising complementary services and procuring bus-related infrastructure.

Source: National Audit Office and Audit Commission

14 But the Department's main financial lever is restricted to its decisions on capital funding for investments in transport infrastructure set out in authorities' Local Transport Plans. As for all local authority services, revenue funding for bus services is provided through local authorities' Revenue Support Grant and local authorities determine their own local priorities for how grants should be spent. The larger flow of funding through Bus Service Operators Grant reduces operating costs and so may help to keep fares down, more routes open and bus patronage up, but is not directly linked to operators' achievement of increases in passenger numbers.

Bus and light rail use has grown in London, but declining bus use elsewhere puts in doubt achievement of the target for passenger growth in all regions

15 The Department measures its performance against its target using data obtained from its annual surveys of bus and light rail operators across England and data from Transport for London, and is taking steps to address some weaknesses in its approach to the collection of the data. The Department has no formal agreement with Transport for London setting out the methods they use in collecting passenger data, but has obtained information on TfL's methods and considers them to be robust. Operators' reliance on manual recording by drivers of passengers using concession cards and season tickets is likely to have resulted in the under-recording of passenger journeys, and the Department plans to sponsor research to assess the extent of the bias and recommend improved methods for collecting the data.

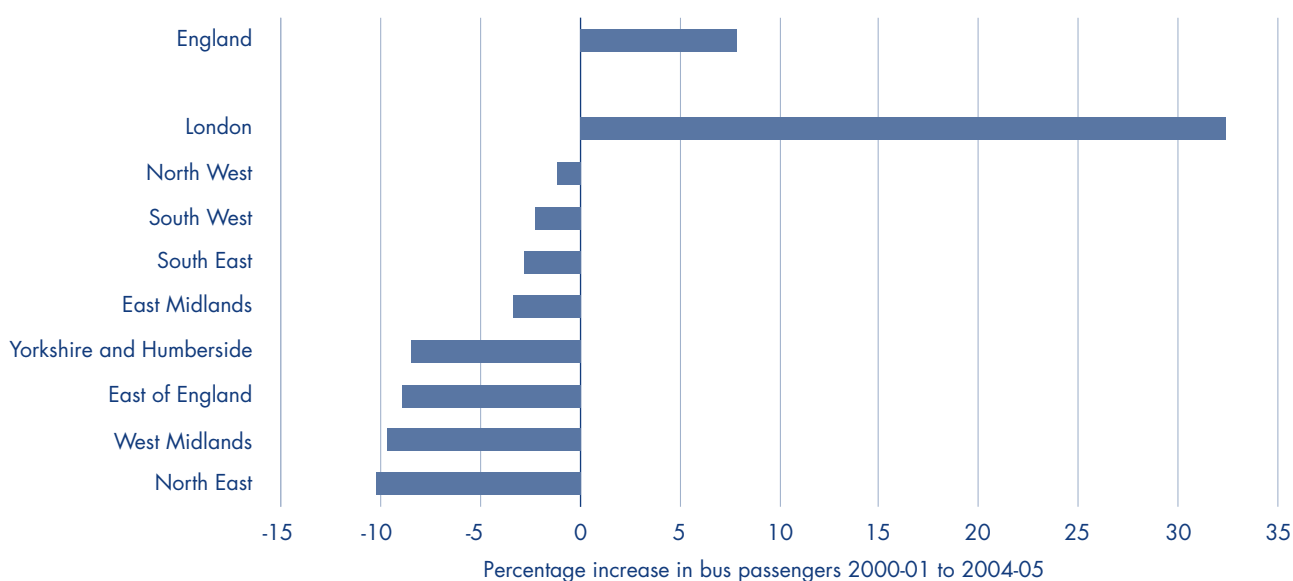
16 Since 2000, there has been a reported growth in bus and light rail use in England of nearly eight per cent, reversing a long term decline. In places such as York and Brighton, increasing numbers of people have

been attracted to use buses and, nationally, passenger satisfaction has improved. But regionally, growth has been exclusive to London. Bus and light rail passenger numbers have fallen on average by seven per cent across the other eight regions of the country (**Figure 4**). Growth in bus use in London might be enough by itself to achieve the target of more than 12 per cent growth nationally by 2010.

The Department is providing authorities an additional £350 million to fund extension in England of the national minimum for concessionary travel from half to fully free fares from April 2006, as announced by the government in the 2005 Budget, and estimates this will increase bus passenger numbers by up to 5 per cent. Despite this, on present trends and projections, achieving growth in every region by 2010, and through it achieving progress in the regions towards meeting the underlying objectives to tackle social exclusion, congestion and vehicle emissions, is unlikely. In our view, more concerted action will need to be taken to gain sufficient assurance that the target of national and regional growth will be achieved. The Department expects the Transport Innovation Fund, which will support innovative local transport measures combining car restraint and enhanced bus services from 2008-09, to help deliver the target.

4 Reported use of buses and light rail, nationally and by region, 2000-01 to 2004-05

In the five years to 2004-05, bus and light rail use has increased by nearly eight per cent in England but has fallen in all regions outside London.



Source: Department for Transport

The bus service delivery chains in London are fit for the purpose of delivering growth in passenger numbers, but are more complex outside London

17 Outside London, bus operators have freedom to innovate in their choice of routes, the scheduling of bus services and the setting of fares, in response to commercial incentives to attract passengers onto their buses. Scope for bus operators to innovate in London is more limited. Yet, the delivery chains in London have delivered significant passenger growth, whilst those outside London have invariably not done so. In London, the Mayor and Transport for London have clear responsibilities, and have used their powers and resources to innovate, improve bus services and increase bus use, for example through researching and responding to customer preferences, introducing new routes, freezing fares and introducing a smart-card payment system. Some elements of the London experience are unique, such as the scale of the revenue funding it has committed, 31 pence per passenger journey compared with 11 pence in the metropolitan areas, the size of its economy, and its population density. And, the effect that these factors have had on patronage in London cannot be isolated from that of the delivery chain itself. Several key features are, however, relevant to other authorities. These features include strong leadership and commitment to improving public transport, a comprehensive understanding of what is required to change travel behaviour, implementing a package of measures to increase demand for buses alongside complementary measures to restrain car use, and building partnerships with operators and the 33 London Boroughs.

18 Outside London, although local authorities are accountable for delivering local growth in bus usage to contribute towards meeting the national target, the majority of services are run by commercial bus operators. Although operators benefit from considerable public subsidy in the form of Bus Service Operators Grant⁷ and the government's investment in bus-related infrastructure and receive compensation for income lost when providing concessionary fares, the operators choose where and how to run services on the basis of their profitability.

19 Outside London, the delivery chain has supported increasing bus use in areas where local authorities and bus operators have built strong working relations, with both parties investing in a package of measures. To be successful, each local authority area needs to understand and address the local barriers to achieving passenger growth. Local authorities may need to encourage bus operators to invest in fleets of suitable quality vehicles or maintain sufficient route reliability; and can assist by reducing instability in the local bus market, caused for example by frequent significant changes to the levels of provision of subsidised services and concessionary fares. The delivery chains require strong local leadership, stable and adequate funding, commitment to partnership working between local authorities and bus operators, a better matching of supply and demand, and complementary car restraint measures. These characteristics do not feature strongly in many local authorities outside London, either due to a lack of commitment to the national target or to introducing the measures needed to stimulate growth in bus patronage, or due to a lack of resources, or both.

20 Where a transport authority considers commercial services do not meet local needs they may purchase further bus services, for which they may determine fares and specify quality and frequency. If the combination of commercial and subsidised services is not delivering their local transport plan, Transport Authorities may seek Department for Transport approval to contract directly for all services using statutory Quality Contracts (in essence, adopting the London approach to service provision in a part or all of a local authority area). The Department has eased the regulations, but to date no local authority has applied to the Department under the Transport Act 2000 for approval to use Quality Contracts. Passenger Transport Authorities consider that the statutory hurdle – they must demonstrate that these Contracts are the only practicable way to deliver their local transport strategies – is too high.

⁷ Formerly known as Fuel Duty Rebate, this Grant is a tax rebate paid by the Department to bus operators based on the amount of fuel they use. It totalled £359 million in England in 2004-05.

There is scope for savings in the administration of concessionary fares schemes

21 Transport for London operates a London-wide concessionary fares scheme, and because it collects fares while paying operators to provide services, TfL avoids the need to reimburse bus operators for the revenue they forego as a result of concessionary fares.⁸ Together, these factors enable TfL and London Boroughs to run the scheme at a low administration cost. Further efficiencies are expected from increasing the re-negotiation period from one to three years.

22 In contrast, outside London concessionary fare arrangements are complex and not designed with efficiency in mind, with a large number of local authorities setting local policies and annually negotiating reimbursements with multiple private bus operators. This results in 'back-office' administration costs of some £16 million (equivalent to around 5 per cent of spending on concessionary fares outside London), compared with an estimated cost of £500,000 in 2004 for the national administration of the Bus Service Operators Grant (equivalent to less than 0.2 per cent of expenditure on these grants). Operators will also bear considerable costs from negotiating reimbursement arrangements with the authorities in each area in which they operate. In addition, whilst the variations in local schemes give particular local benefits, the schemes are confusing for the public and create barriers to passengers' mobility through, for example, passengers not being able to travel on concessionary fare bus passes across adjacent local authority boundaries.

23 Despite the government's extension of the national minimum for concessionary fares to provide free fares on local buses, the scheme will remain locally administered. If the complexities of negotiations with operators and differences between local schemes could be removed, as they have been in Wales and Scotland through the introduction of national arrangements (and where there is also eligibility to travel throughout Wales and Scotland), and costs could be brought into line with those in London, we estimate that some £12 million of the current £16 million in administration costs outside London could be saved. The Department considers that local authorities' discretion to add to the minimum concessionary fares entitlement, together with significant variations in local fare levels and

passenger numbers, make it difficult to develop a robust national reimbursement formula, but they have provided guidance and support to help local authorities achieve savings in their administration of the scheme.

There is scope for authorities outside London to save £26 million a year in procurement of supported services

24 Transport for London has adopted a strategic approach to contracting for bus services, keeping down its own and contractors' administration costs by using a common tender process, providing extensive information to all potential contractors on its website, and using a single form of contract with standard requirements. Tenders are packaged and competition is encouraged for high value contracts. It is exploring with London Boroughs the scope for further efficiencies through joined up working on operations, contracts and procurement.

25 We found that, outside London, the administration costs of procuring bus services are not high. But there is significant potential to improve the cost-effectiveness of bus service procurement. Fewer than half of the transport authorities responding to our survey had undertaken a fundamental review of their processes for tendering for local bus services since 2000. Those that had reviewed their approach reported to us that they had achieved reduced subsidy costs per mile or had achieved savings in administration costs, for example through tendering for supported services across their area and using longer contracts. Local authorities' subsidy cost per passenger journey on subsidised local bus services varies significantly – overall subsidy costs varied between unitary authorities, from 50 pence per passenger journey to £3.20, and also between counties, from 85 pence per journey to £1.61 – and within authorities subsidy costs differ by route, with some routes scarcely requiring subsidy to others receiving subsidy of up to £53.34 per passenger journey. These variations reflect differences in the areas served by the bus routes and the subsidy needed to make a particular route viable, but also authorities' ability to obtain a good price from operators. We estimate that if authorities currently tendering for individual routes or small packages of routes adopted a more strategic approach to tendering and longer-term contracts, they could achieve average savings equivalent to some 10 per cent of their support for operators, amounting to some £26 million.

⁸ Outside London, bus operators are reimbursed to leave them no better and no worse off.

26 Authorities have not generally worked together for more effective tendering for services or economies of scale in capital spending, such as routine procurement of bus related infrastructure. Authorities' reported expenditure on routine items ranged widely – for example, from £2,200 to £8,500 for a bus shelter; and from £21 to £400 for a bus stop pole. Variation in the items purchased may reflect local decisions on quality or support local branding of services. However, less variation could enable economies of scale and improvements in quality.

Regulation of bus operators' performance is effective in London, but there is scope to make the unregulated market outside London work better

27 In London's regulated market, accountability and regulation are clear. TfL has clear responsibility and the contractual powers necessary to hold operators to account. It has implemented Quality Incentive Contracts, with bonuses and deductions, to provide operators with real performance incentives. Outside London in the deregulated market, operators determine routes and fares, subject to normal investigation of potential anti-competitive behaviour by the Office of Fair Trading, and are accountable to passengers for the reliability and punctuality of local bus services through the incentivisation of the farebox. In their provision of public transport, bus operators benefit from significant levels of taxpayer support through the Bus Service Operators Grant⁹ and local authorities' investment in bus infrastructure. But, they are not formally accountable for the reliability and punctuality of their services to local people. There is scope to make the market more effective by making performance information more readily available and transparent to local communities.

28 The Traffic Commissioners are responsible for monitoring compliance against operators' licences, the roadworthiness of buses and the reliability and punctuality of commercial services against their registered timetable. But without routine access to bus service performance data, the Commissioners cannot target enforcement effort where it is most needed. Local authorities monitor services they subsidise and may obtain reliability and punctuality information on commercial services, but there are disincentives for local authorities to share the information with the Commissioners. The Commissioners have taken enforcement action, but this can result in services becoming un-commercial and being withdrawn, and might not deliver service improvements on behalf of the public.

⁹ Formerly known as Fuel Duty Rebate, this Grant is a fuel duty rebate paid by the Department for Transport to bus operators according to the amount of fuel they use.



RECOMMENDATIONS

Cost-effective delivery against the Department's PSA target depends on action being taken across the delivery chain, by the Department, local authorities and bus operators.

As owner of the national target, the Department of Transport should:

- a** Share with all stakeholders in the delivery chain, the Department's model and projections for the growth in bus use and information about the range of factors influencing delivery against the PSA target so that stakeholders understand the action they need to take if the target is to be met.
- b** Follow through on its direct engagement with key authorities beyond the assessment of their second Local Transport Plans to identify, support and prompt vigorous action needed to achieve the target at both the national and regional levels.
- c** Further encourage District Councils to work with neighbouring authorities in establishing county-wide concessionary fares schemes, and pilot with pathfinder authorities the operation of concessionary fares schemes across several counties or a region and the use of longer-term concessionary fare agreements with operators.
- d** Work with selected pathfinder authorities to identify and demonstrate the scope for efficiencies to be made in adopting a more strategic approach to procurement of bus services in co-operation with neighbouring authorities.

- e** Complete the proposed research into the accuracy of passenger journey data and include an assessment of the accuracy of passenger numbers in its reporting on performance against the Public Service Agreement target.
- f** Improve accountability for bus services through improved processes for collecting and publicising data on the quality of public transport provided by the bus industry. The data should be routinely available to the Traffic Commissioners, transport authorities and the Department to support their work in planning and monitoring operators' performance on behalf of passengers. To make the bus market more effective, performance information should also be made more readily available and transparent to local communities.

At the same time, local transport authorities should:

- g** Where they do not already do so, carry out periodic reviews of the bus networks in their areas and of the range of transport requirements for schools, local amenities, employment and social services, and assess how best to match demand for, and supply of, local public transport. As part of these reviews, authorities should consider the extent to which bus services are aligned with other developments such as housing, hospital and commercial developments within their areas, and set out how they will maintain such coherence through the period of their Local Transport Plans.



- h** Agree the contributions that their respective Metropolitan District Councils and District Councils will make to delivery of the Local Transport Plans and local targets, including measures such as parking policy, implementation of highway schemes and planning decisions relating to strategic land use.
- i** Work with bus operators and other key stakeholders, including local passenger groups, to address passengers' principal concerns about improving the stability of bus timetables and routes, and the quality and reliability of services.
- j** Review their unit cost of subsidy for supported bus services and the cost-effectiveness of their procurement approach and, where they are not already doing so, combine bus services, including school transport where possible, into larger packages and adopt longer-term contracts to be put out to tender, in order to achieve savings from economies of scale and administrative efficiencies.
- k** Review with other neighbouring authorities the scope to achieve savings from economies of scale and administrative efficiencies through joint procurement of bus-related infrastructure, such as bus shelters.



PART ONE

The plan for delivering growth in bus use

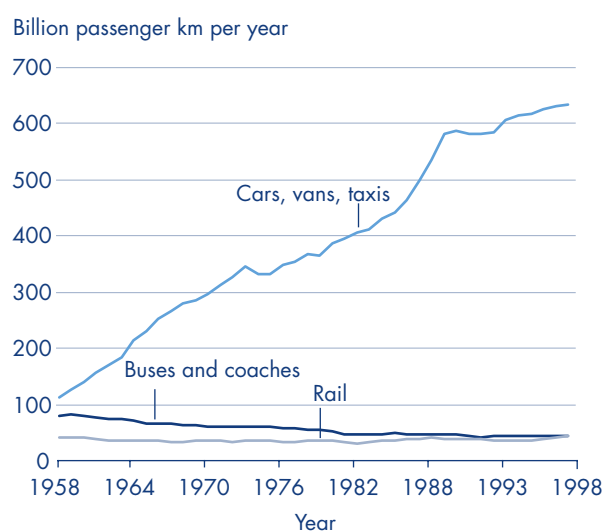


1.1 In its *10 Year Plan for Transport*, the government set a target to increase the number of passenger journeys on buses in England by 10 per cent by 2010, while at the same time improving the punctuality and reliability of bus services. The government sought to reverse a decline in bus use experienced over the previous 40 years (**Figure 5**), which it attributed to rising economic prosperity, leading to increased car ownership, alongside a steady increase in the cost of travelling by bus relative to the cost of motoring.

1.2 Envisaging further growth in car ownership, the *10 Year Plan* highlighted the need for modern, affordable and reliable public transport to enhance quality of life and contribute to a strong economy and a better environment. It acknowledged that the government was setting an ambitious, but what the government considered to be a realistic, vision of what could be achieved over the subsequent 10 years. The *Plan* stressed the role of partnership between central government, local authorities and the private sector in modernising public transport. It pointed to additional central government funding and local initiatives to improve the quality and reliability of bus services, implement bus priority schemes and improve passenger information.

5 Passenger transport by mode (buses and coaches, rail and cars, vans and taxis), 1958 to 1998

Over the 40 years to 1998 the use of cars, vans and taxis increased six-fold while the use of buses and coaches fell by 44 per cent.



Source: *10 Year Plan for Transport*, Department for Transport

1.3 The Department for Transport (the Department) included the target in its Public Service Agreement (PSA) targets¹⁰ and has revised the target twice since 2000 – after the Spending Reviews in 2002 and 2004 (**Box 1**). The National Audit Office reported on light rail systems in April 2004 (HC 518, 2003-04), highlighting significant shortfalls in patronage compared with expectations. Further, with only seven light rail systems currently in operation and with few new systems likely to become operational before 2010, light rail's contribution to the Department's target is limited. Achievement of the target at both the national and regional level will depend overwhelmingly on growth in bus use.

1.4 The Department's target is now to increase bus and light rail¹¹ use by more than 12 per cent by 2010 compared with 2000 levels, with the additional challenge of achieving growth in every region in England. The Department introduced the additional target of growth in every region to encourage wider engagement in the target which otherwise could be achieved by improvements in London and one or two other areas alone. Although the 12 per cent target would be measured at a national level against 2000 levels, the aim of achieving growth in every region would be assessed over the three years from 2008 to the end of March 2011, on the grounds that it would take time for local authorities to start to reverse declining bus use in regions outside London.

BOX 1

Changes to the Department for Transport's target

2000: "Increase bus use in England (measured by the number of passenger journeys) from levels in 2000 by 10 per cent by 2010, while at the same time securing improvements in punctuality and reliability".

2002: "Secure improvement to the accessibility, punctuality and reliability of local transport (bus and light rail) with an increase in use of more than 12 per cent by 2010 compared with 2000 levels".

2004: "By 2010, to increase the use of public transport (bus and light rail) by more than 12 per cent in England compared with 2000 levels, with growth in every region".

Source: Department for Transport

Increasing bus use is primarily intended to help reduce congestion, tackle social exclusion and reduce damage to the environment, but the Department does not know how much the former will contribute to the latter

1.5 The underlying rationale for the target is to improve the availability of public transport as a means of tackling social exclusion, and contribute to the government's wider transport objectives of tackling local road traffic congestion and reducing vehicle emissions that lead to climate change. The target is therefore a proxy measure for the real benefits that society would experience if people without cars achieved greater mobility and social inclusion through using buses and if more people travelled by bus rather than by car. Increasing bus use also contributes to viable bus services, offering the public more choice in their modes of transport.

1.6 An increase in bus use will not, however, result in a commensurate reduction in congestion and pollution to the extent that some of the additional passengers might not have travelled at all or would otherwise have used other forms of public transport, such as rail, or walked or cycled. As a proxy measure for modal shift from cars to buses, the target takes no account of any 'deadweight' caused by such substitution effects. Further, the target concerns bus journeys and excludes journeys on coaches, school buses and community transport¹², which might help to tackle social exclusion, congestion and pollution. The Department has excluded coaches from its measure on the grounds that they provide inter-urban transport and therefore do not contribute to solving local transport problems of congestion and pollution. It has also excluded school buses and community transport from the target, because it considers that these services are distinct from mainstream passenger transport as they are not available to the general public.

10 The Department has complementary PSA targets to reduce congestion on the inter-urban trunk road network and in large urban areas in England below 2000 levels by 2010 and, jointly with the Department for Environment, Food and Rural Affairs, to improve air quality for emissions of carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene, and 1-3 butadiene.

11 The government previously had a separate target to double light rail use between 2000 and 2010.

12 Non-commercial passenger transport provided by local authorities or voluntary services.

1.7 The Department is aware that some of the additional bus passengers might not have travelled at all or would otherwise have travelled by train or walked or cycled. The Department considers that it is difficult to assess both the nature and extent of substitution between modes and the complex relationship between increased bus use and reduced congestion, pollution and social exclusion. It has therefore not estimated the likely scale of substitution and hence the extent to which growth in bus patronage would contribute to the PSA target's underlying objectives in respect of congestion and pollution. Nor has it assessed the extent to which increased bus use has improved social inclusion.

The Department has a detailed plan to deliver the target

1.8 The government sets overall policy for bus services, including the regulatory framework, and provides some funding. The market for the provision of bus services is heavily concentrated in the hands of a small number of national bus operators. Three operators account for more than half of the market, while two other groups account for a further 15 per cent, resulting in the top five operators accounting for two-thirds of the market (**Figure 6**). Smaller, locally-based operators provide the remainder of bus services. Outside London, nearly 80 per cent of the bus network is determined and provided by commercial operators¹³ on a commercial basis. The other services, which are also run by private operators, are supported financially by local authorities to complement the commercial services.

6 Concentration of market share amongst major commercial bus operators in England in 2004

The market for the provision of bus services is heavily concentrated in the hands of a small number of national bus operators.

| Bus operator/group | Percentage share of the market |
|--------------------|--------------------------------|
| First Group | 21.6 |
| Stagecoach | 15.8 |
| Arriva | 14.4 |
| Go-Ahead | 9.0 |
| National Express | 6.0 |
| Total | 66.8 |

Source: National Audit Office summary of data from TAS Bus Industry Monitor, 2004

1.9 There were significant statutory changes in 1999 and 2000 in the arrangements for the delivery of bus services inside and outside London:

- in London, with the passing of the Greater London Authority Act 1999, the Mayor and Transport for London took up new powers to manage transport services across London, including the Transport for London Road Network, and Boroughs' responsibilities were amended to require them to prepare plans to implement the Mayor's Transport Strategy; and
- outside London, the Transport Act 2000 made Local Transport Plans¹⁴ a statutory requirement and introduced new powers by which local authorities could work with operators to improve services through Quality Partnerships and, through Quality Contracts, remove operators' right to register and operate services where authorities have no other way to deliver their bus strategies.

¹³ In addition to the commercial operators, there are some 16 municipal bus companies in the UK owned by local authorities.

¹⁴ Local transport authorities produce five-year Local Transport Plans, including separate but linked Bus Strategies and Information Strategies, setting out their transport strategy and five-year programme for capital investment and the level of capital funding from government required to deliver the programme.

1.10 The Department first drew up a detailed delivery plan in early 2003 for the 2002 PSA target and has since revised and refined it. In preparing its plan, the Department did not draw up delivery chain maps or review whether the existing delivery chains were fit for purpose. In his July 2004 Review of Public Sector Efficiency, Sir Peter Gershon pointed to the usefulness of delivery chain maps, in helping departments understand the complexity of public sector policy, funding and regulation.

1.11 Like other departments, the Department for Transport has not published its delivery plan which is intended for internal decision-making purposes rather than a document to be shared more widely with stakeholders. In our view, there is much material in the document that would be useful to share with all stakeholders in the delivery chain, particularly the Department's model and projections for the growth in bus use and information about the range of factors influencing delivery against the PSA target, so that stakeholders would understand the action they needed to take if the target is to be met.

1.12 More recently, the Department has reviewed the fitness for purpose of bus subsidies. It consulted widely and concluded in its July 2004 White Paper, *The Future of Transport*, that the Bus Service Operators Grant¹⁵, a fuel duty rebate for bus operators, should not be changed because the benefits were not certain enough to justify the likely costs and disruption and that the Rural Bus Subsidy Grant¹⁶ should be retained. The Department has established three-year funding for new Kickstart¹⁷ projects to pump-prime schemes to generate increased patronage, and a new Transport Innovation Fund¹⁸ to support smarter, innovative local transport packages combining management of demand for car use with bus services to address congestion and support improvement in national productivity.

1.13 The Department's delivery plan identified five key factors that would need to be improved to make buses more attractive and encourage bus use – accessibility, punctuality, reliability, security and customer satisfaction (Figure 7). Operators may impact on them by investing in improvements or cutting back on services as they deem appropriate in pursuit of their commercial interest. And the Department and local authorities may also influence them. The Department's delivery plan focused on issues directly within the Department's control or influence. It did not identify measures for tackling other factors affecting people's use of buses, however, such as land use decisions affecting the location of new housing and office developments.

1.14 The Department's delivery plan also identified risks to delivery, the action that would be needed to address them and the organisations responsible (Figure 8 on page 28). The Department ascribed the highest risk to a widening of the gap between the generalised cost¹⁹ of using public transport compared with that of motoring, with the risk of rising bus industry costs contributing to pressures on bus services and fares. The Department cannot alter directly the generalised costs of motoring, which are primarily determined by government policies on taxation or international factors such as oil prices. The Department helps to reduce bus industry costs through Bus Service Operators Grant, which it has increased in line with increases in fuel duty. But, the Department's delivery plan did not include any actions to tackle the widening gap between the generalised cost of using public transport compared with the cost of motoring. Local authorities can, however, influence motoring costs through, for example, their policies on the availability of parking spaces and parking charges and bus operators' costs by providing, for example, bus priority lanes which facilitate efficient running.

¹⁵ Formerly known as Fuel Duty Rebate, this Grant is paid by the Department to bus operators based on the amount of fuel they use.

¹⁶ Paid by the Department to local authorities to support bus services in rural areas.

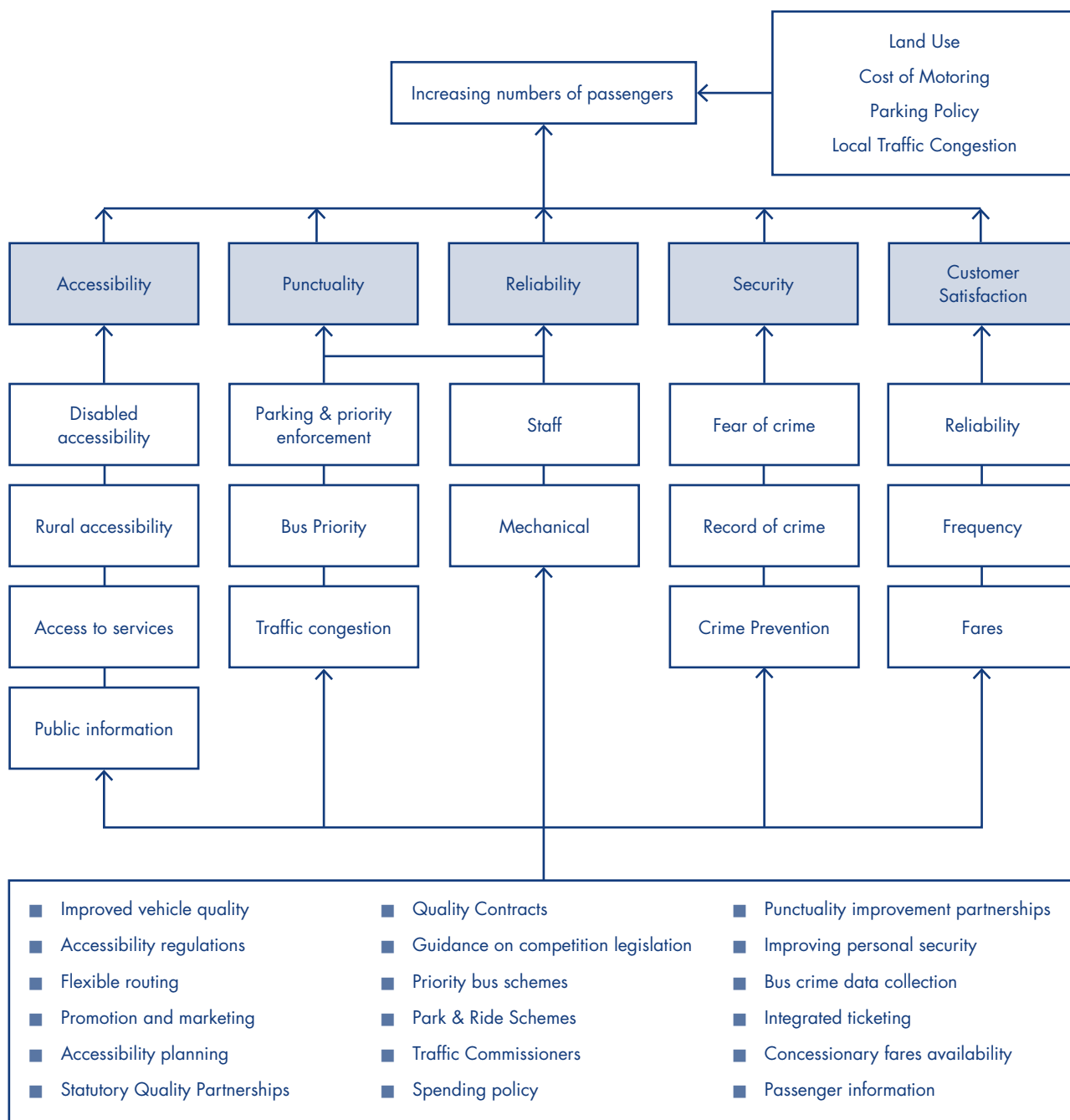
¹⁷ Kickstart funding was introduced following the end of the Rural and Urban challenge funding, which had been available from 1998-99 to 2002-03, to support novel and innovative public transport services with £20 million available over three years from 2005-06.

¹⁸ The Transport Innovation Fund will support initial development of schemes from 2005-06, and provide funding for schemes from 2008-09, with funding forecast to rise from £290 million in 2008-09 to £2.5 billion in 2014-15.

¹⁹ Generalised cost measures full economic cost, including cash costs such as fares, parking charges and fuel, as well as opportunity costs such as time spent travelling and waiting.

7 The Department for Transport's analysis of factors affecting bus use and delivery against the PSA target

The Department identified a variety of measures to influence bus accessibility, punctuality, reliability, security and customer satisfaction which in turn affect bus use and delivery against the PSA target.



Source: Department for Transport

8 Key risks to the achievement of the PSA target identified by the Department for Transport in its delivery plan

The Department identified six key risks to delivery of its target, all of which fell outside its immediate span of control.

Key risks

1 Further widening of the gap between the cost of motoring and local transport costs.

Increased car ownership and use, limiting growth in use of public transport.

Responsibility for addressing risk

Primary responsibility: HM Treasury, local authorities and bus operators.

- HM Treasury can address risk through taxation policy, such as its policy on fuel duty.
- Local authorities can decide to subsidise bus services or raise the cost of use of private cars, through parking charges or congestion charging.
- The Office of the Deputy Prime Minister (ODPM) and the Department can contribute to the cost of local authorities' bus subsidies.

2 Rising costs in the bus industry and shortage of bus drivers, leading to higher fares or withdrawal of commercial services.

Primary responsibility: bus operators.

- Local authorities can decide to subsidise bus services.
- The ODPM and the Department can contribute to the cost of local authorities' bus subsidies.
- The Department can work with industry to identify and address factors contributing to rising costs, such as the recruitment and training of bus drivers.

3 Fare level and funding decisions taken by the Mayor of London could reduce growth in use of public transport in London.

Primary responsibility: Mayor for London.

- The Department and Government Office for London can seek to influence TfL through discussions on its strategy for reducing costs and decisions on the Transport Grant for the Greater London Authority.

4 Limited introduction of bus priority measures and traffic and parking restraint policies by local authorities.

Congestion reducing bus punctuality and use of local public transport.

Primary responsibility: Local authorities, including Passenger Transport Authorities.

- The Department and Government Offices can seek to influence them through discussions and decisions on Local Transport Plans and related capital funding, for example giving more capital funding to better authorities.
- The Department can support the introduction of new powers, such as traffic management powers in the Traffic Management Act 2004.

5 Reduced local authority support for subsidy for local services, including concessionary fares, to keep down council tax. Fewer services and less generous concessionary fares reducing use of local public transport.

Primary responsibility: Local authorities, including Passenger Transport Authorities.

- The ODPM can influence them through determining Revenue Support Grant levels and rules on ring-fencing of funding.
- The Department can set policy for minimum levels for concessionary fares.

6 Competition law acts as a barrier to co-operation between bus operators and authorities aimed at achieving benefits for users of local public transport.

Primary responsibility: Office of Fair Trading (OFT).

- The Department can work together with the OFT to help operators understand what is possible under the Competition Act and the provisions of the Ticketing Schemes Block Exemption.

Source: Department for Transport

Local authorities and bus operators are the primary agents for delivering the PSA target and improved bus services

1.15 The Department has increased its investment in bus services. In the *10 Year Plan for Transport*, the government anticipated that £59 billion would be spent on local transport over the ten years to 2010-11, £30 billion of which would be spent on tackling the backlog in local authority roads maintenance. The government expected to provide public investment of £19 billion, to supplement private investment of £6 billion, and £3 billion revenue generated from congestion charging and workplace parking levies, with the remaining £31 billion from public revenue funding. The *Plan* did not specify how much would be spent on bus services and related infrastructure such as bus priority lanes and new bus stations. Over the first four years, to 2004-05, public investment in local transport outside London has been in line with that planned - investment in bus-related infrastructure within local authorities' Local Transport Plans increased from £95 million in 2001-02 to £188 million in 2004-05. Outside London, total local authority capital expenditure on bus-related projects rose to £287 million in 2003-04.²⁰ The Department has not collected information on the level of private investment compared with the amount anticipated.

1.16 The Department has focused most of its resources on supply-side measures, to improve the quality and quantity of bus services being provided, in the belief that these are more effective than demand-side measures for achieving its PSA target. It has funded the introduction of Transport Direct, a national internet-based travel information system. More recently, in the 2005 Budget, the government announced that the national minimum for concessionary travel would be extended from half to free fares from April 2006, at a cost of £350 million in England. The government has also started a public debate on the costs and benefits of introducing national road pricing at a future date as a means of tackling congestion and emissions contributing to climate change.²¹ It is unlikely, however, that national road pricing would be a significant factor in the achievement of the 2010 bus use target.

The Department has limited financial levers over local bus services through local authorities

1.17 The Department has emphasised in its guidance to local authorities that their success or failure in implementing their Local Transport Plans would be reflected in future capital funding decisions. The Department's first allocations of funding under the Local Transport Plan were based on local authorities' historical allocations, their bids for funding and judgements about their performance. Since then, for 2002-03 to 2004-05, the Department has allocated nearly 10 per cent of its funding based on its assessment of authorities' performance in their previous year's Annual Progress Report.

1.18 In our visits to case study authorities we found limited evidence to suggest that this performance incentive was having an influence on local commitment to improving bus services. The Department's decisions on capital funding through Local Transport Plans and hence their financial levers over local authority performance have not, by their very nature, considered local authorities' use of revenue funding to support bus services. The Department's influence is further diluted by its focus on authorities' overall progress in delivering against their local plans, rather than progress with specific elements, such as bus services, investment in bus infrastructure and developing partnerships with operators drawing in commercial investment. To address this issue, the Department intends to replace the current Local Transport Plan funding system for 2006-07 with a formula approach, increasing the performance incentive element to 25 per cent.

The Department has encouraged authorities outside London to set themselves targets for bus use

1.19 After taking up office in May 2000, the Mayor for London independently set his own target for increased bus use in his Transport Strategy 2000. In 2005, the Department agreed with Transport for London its likely contribution to the target by 2010, based on the Mayor's own target for growth in bus use in the capital.

²⁰ TAS Bus Industry Monitor 2004.

²¹ The Government's Response to the Transport Select Committee's Report "Road Pricing: the next steps" CM 6560.

1.20 The Department set the original version of its target in 2000, after local authorities outside London had already produced their first five-year Local Transport Plans. Since then, the Department has encouraged these authorities to develop their strategies to contribute to the national target. Through its guidance on annual performance reporting against Local Transport Plans, the Department formally required local authorities outside London to set their own individual targets for increasing bus use, although without specifying the period for which the targets should be set. In 2003 most authorities reported that they had set a target, the rest doing so in 2004. The Department has since required local authorities to include revised targets for their transport strategies, for the five-year period 2006-07 to 2010-11, in their second Local Transport Plans, which are due to be ready by March 2006.

1.21 The Department does not expect all local authorities outside London to be able to achieve the same level of growth in bus use or for growth to be even between regions, reflecting differences in local geography, the growth of car ownership and the scale of local traffic congestion. The Department considers that more vigorous action will be needed to develop and improve bus services in parts of the country where traffic congestion is a growing and pressing problem than where car ownership and congestion are less of a problem.

1.22 The Department and Government Offices have not offered general guidance to local authorities on the level at which they should set their new targets for bus use, or on the balance to be struck between concentrating resources on routes that can significantly increase passenger numbers or improving accessibility elsewhere. Rather, its new Directorate is working with local authorities to encourage them to give a high priority to transport issues including improved bus services and restraining car use. The Directorate is reviewing key local authorities' assessments of their transport needs to ensure that they coherently address local housing and employment plans. It is encouraging them to set challenging targets and appropriate measures to deliver them in their second Local Transport Plans.

The Department has worked with stakeholders to spread best practice

1.23 The Department has worked with local authority and industry stakeholders in the Bus Partnership Forum to develop a range of best practice guidance intended to encourage the development of partnerships between local authorities and operators as a means of achieving growth in bus patronage. Most recently, in 2005, the Forum produced guidance for authorities and operators to work together to improve bus punctuality. Through the Forum, the Department has also sought to influence bus operators directly, together with local authorities, to provide greater service stability by limiting service changes to pre-set times of the year and giving adequate advance notice of service changes. These practices are encapsulated in the Forum's Service Stability Code 2003.

1.24 The Department has also funded some authorities to spread good practice. Based on the first Local Transport Plans, it identified 16 local authorities to act as Centres of Excellence for integrated transport, including bus-related initiatives, and funded them to inform other authorities on their approach. In 2003, transport was a theme for the local authority "beacon" status, resulting in the Department funding five beacon councils to share their knowledge on improving local transport. In 2005, the Department provided funding to a further group of 17 authorities to act as Centres of Excellence in providing support for other local authorities to disseminate best practice in transport planning and delivery. The Office of the Deputy Prime Minister also started to fund the North-West regional Centre of Excellence to develop and disseminate proposals to deliver efficiencies in road passenger transport. This two-year project will build on good practice already identified and include consideration of partnership working, the mix of public transport services provided (for example by buses, taxis and community transport), and the scope for further private/public provision of services.

The Department has worked to reduce risks from a lack of clarity over the way bus industry regulation works

1.25 The Department's delivery plan depends on the operation of the bus market outside London, as regulated by the Traffic Commissioners and the Office of Fair Trading (OFT).²² In January 2005, the Traffic Commissioners set revised standards of punctuality²³ and penalties tied into an agreement with the Bus Partnership Forum for authorities to work with operators to improve punctuality. The OFT has provided guidance for operators on competition law as it relates to the bus industry and on the competition test requirements of the Transport Act 2000, so that authorities and operators understand the requirements and are aware of the Ticketing Schemes Block Exemption, which provides them scope to establish multi-operator ticketing schemes. The Department and the OFT consider that in general terms the market is working effectively. Where necessary, local authorities may adopt quality partnership agreements with bus operators, under which the local authorities can intervene to raise standards in the interests of passengers. These agreements can be given statutory force.²⁴ And Quality Contracts²⁵ provide authorities with the means to intervene where this is the only practicable means of implementing their bus strategy.

The Department continues to monitor risks to the achievement of the target, and has not identified the need for any further major action

1.26 The Department has regularly reviewed its risk register and noted that rising costs in the bus industry and their potential impact on bus passengers have continued to present a high risk to delivery of the PSA target. The Department has worked with the Bus Partnership Forum to develop a model of bus industry finance to provide projections of their operating costs and returns and demand for bus services. It provides authorities with capital funding for bus priority measures and traffic restraint, which it expects to help reduce bus costs by creating easier operating conditions. Authorities, however, pointed out to us the pressure to use more of their

resources on facilities, security and information systems, reducing the amount available for supporting services directly. Tender prices for local bus services have risen faster than general inflation and budgets – each year since 1998 authorities have reported increases in prices for renewing contracts on a like-for-like basis. For example, counties have reported average increases of between 10 and 23 per cent over the period.²⁶ In January 2005 the Department issued a Best Practice Guide to help authorities improve their procurement practice as a means of tackling rising costs. Measures of the wider generalised costs of bus use, including the time taken to get to the bus stop and the journey time, have remained greater than the wider cost of using cars, contributing to the decline in bus use.²⁷ The Department has not identified the need to take any significant further action to address the rising cost of bus use, but expects the Transport Innovation Fund to help address the difference in costs by supporting innovative local transport packages that combine demand management measures such as road pricing with better bus services.

Since 2000 there has been some investment in bus services and car restraint measures, and the Department is now looking to its Transport Innovation Fund to contribute towards matching the aspirations of the *10 Year Plan*

1.27 In the *10 Year Plan*, the government envisaged a range of bus-related initiatives and car restraint measures being implemented over the subsequent ten years, to achieve improved bus service standards. **Figure 9 overleaf** shows that, by March 2005, there had been investment in a large number of initiatives, but limited action in introducing complementary car restraint measures such as workplace parking levies and congestion charging schemes. The Department has more recently encouraged local authorities to introduce such measures where the benefits can be demonstrated, particularly through the Transport Innovation Fund.

22 The Traffic Commissioners are responsible for licensing public service vehicle operators, registering bus routes and enforcing the delivery of registered routes to timetable. The Office of Fair Trading is responsible for enforcing competition legislation.

23 95 per cent of buses should depart from one minute early to five minutes late from scheduled timetables, frequent services should not have excess waiting time averaging more than 1¼ minutes, and 95 per cent of services should end their journey no more than five minutes late.

24 Under the Transport Act 2000 authorities can invest in new facilities and require operators wishing to use the facilities to provide services to a particular standard.

25 The Transport Act 2000 makes provision for quality contracts under which authorities grant exclusive rights to operate local bus services and specify their terms for the service (such as frequency, fares and standard of service).

26 Association of Transport Co-ordinating Officers, Price Expenditure and Competition Survey 2004.

27 Commission for Integrated Transport

9

Extent of key bus-related initiatives and car restraint measures implemented by March 2005, compared with the Department's vision in the *10 Year Plan*

Many bus initiatives have been introduced since 2000 but there has been little action to introduce car restraint measures.

| 10 Year Plan initiatives | Extent of initiatives implemented by March 2005 |
|---|--|
| Improved bus service standards | The Department agreed with the bus industry a target to reduce the average age of the bus fleet to eight years and to ensure that half of all full-sized buses are accessible to wheelchair users by 2010. By 2003-04 the average age of the bus and coach fleet in Great Britain was 7.9 years compared with 8.5 in 2000. |
| Additional support for rural bus services | The Department introduced the Rural Bus Subsidy Grant in 1998. By March 2005 this had supported 2,200 rural bus services carrying 29 million passengers. Rural Bus Challenge Funding, which was available from 1998-99 to 2002-03, supported 300 projects. |
| Park and ride schemes increased by up to 100 | Local Transport Plan funding has provided funding for over 14,000 bus stops with travel information displays, over 2,000 new bus stops and 67 new park and ride schemes. |
| Extensive bus priority schemes, including bus infrastructure projects such as guided bus routes, with buses travelling on dedicated lanes kept free from other vehicles | 3,000 miles of bus journey improvements. An estimated two per cent of urban roads give buses some form of traffic priority. Guided bus schemes have been introduced in Crawley, Leeds and Bradford and one has been provisionally approved for Cambridgeshire. |
| Expansion of local traffic management schemes | |
| Workplace parking levies in 12 large cities | One city, Nottingham, has a workplace parking levy scheme under development. |
| Congestion charging in eight large cities | One major congestion charging scheme has been introduced, in London in February 2003. |

Source: Department for Transport, TAS 2005

Since 2000 there have been improvements in reliability of bus services and passenger satisfaction

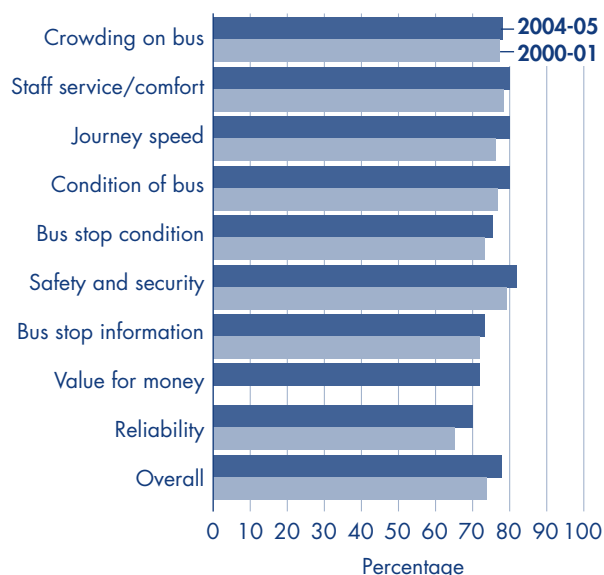
1.28 Overall, a high percentage of passengers are recorded as being satisfied with the quality of bus services (**Figure 10**). One measure of service quality, "reliability", is measured as the percentage of scheduled bus miles not run, for example because of traffic congestion, bus breakdown or staffing problems. Outside London it has remained at 1.5 per cent since it was first measured in 2000-01. It has improved in London, where the percentage of scheduled bus miles not provided has fallen from 4.7 per cent in 2000-01 to 2.3 per cent in 2004-05. The improvement is attributed to fewer staffing problems and reduced losses due to traffic congestion. Figure 10

shows that passengers in London have become more satisfied with bus services over the five years from 2000-01 to 2004-05, with small increases in satisfaction across the range of factors surveyed, from crowding on buses to reliability of services. At the same time the number of reported complaints increased to 43,000 in 2004-05, following TfL taking responsibility from operators for receiving and responding to passengers' complaints and actively encouraging passenger feedback. Outside London, satisfaction levels with some aspects of service are higher than in London. There has been less of an increase in overall satisfaction, but there have been some small increases in satisfaction ratings for most of the individual measures. These improvements in quality of service might contribute to increased passenger numbers over the remainder of the target period.

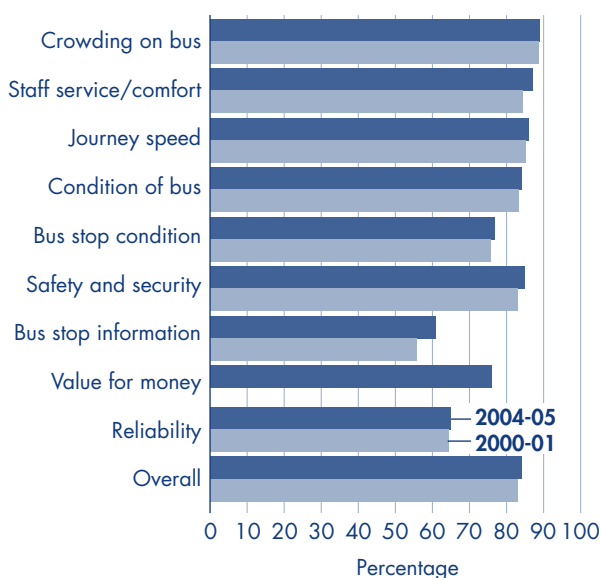
10 Passengers' satisfaction with the quality of bus services 2000-01 and 2004-05

Between 2000-01 and 2004-05 there was a small improvement in passengers' satisfaction with the quality of bus services across a range of measures both inside London and outside London.

London



Non-London



Source: Department for Transport/National Statistics and DVLA

NOTE

Satisfaction with the value for money of bus services was not measured in 2000-01. In 2001-02, 76 per cent of those surveyed in London thought buses represented value for money, while 73 per cent outside London thought so.

The Department is strengthening its systems for collecting passenger numbers, in part to address likely under-recording of bus use

1.29 The Department measures performance against the target using data obtained from its annual surveys of bus and light rail operators across England and data from Transport for London. It publishes the data once a year as National Statistics. Bus passenger information can be obtained automatically from ticket machines, but, where passengers use concession cards, through tickets, day-cards or season tickets, data on journeys must be collected by other means, such as manual recording by bus drivers. The most recent National Statistics Quality Review, carried out in 2002 by consultants in accordance with the Office for National Statistics' arrangements for such reviews, found that the system for collecting the data outside London was reasonably reliable for measuring progress towards the national target but may not be sufficiently reliable for accurate monitoring of regional changes in the data. It did not review the data supplied by TfL.

1.30 More recently, in a review²⁸ of the Department's processes and controls for collecting data for the target set in 2002 (Box 1), the National Audit Office found weaknesses in the system for collecting data to measure and report on performance against the target. Boardings manually recorded by bus drivers were likely to be significantly biased and result in an understatement of bus usage. The Department had not assessed the likely level of error in the data, and therefore in the National Statistics. Further, changes in ticketing procedures, such as an increase in season ticket use, could result in a change in this level of error, affecting the comparability of the data over time. The Department meets with operators to help them understand the importance of supplying good quality data but had not undertaken its own work to assess the likely scale of under-recording. The Department had no formal agreement with Transport for London setting out the methods TfL used in collecting passenger data. It had a limited understanding of the system TfL uses to estimate their bus patronage and had not carried out any additional work itself. And two elements of the overall target, punctuality and access to services, were not measured.

²⁸ In 2002 the National Audit Office was invited by the Government to examine Departments' data systems for monitoring and reporting on their Public Service Agreement targets. With effect from 2005, the National Audit Office will be reporting annually on its validation work on Departments' data systems.

1.31 The Department has worked to strengthen its systems for collecting data on passenger numbers. Punctuality and reliability are now no longer part of the PSA target, although the Department has nonetheless continued to develop arrangements for collecting data on these aspects of bus services for National Statistics on punctuality and accessibility. During 2005 the Department has sought further information from TfL and, having reviewed this, has concluded that TfL's approach is likely to ensure its passenger data are robust. The Department estimates that there could be between 2 and 4 per cent under-recording of passenger numbers outside London. The Department plans to sponsor research to assess the extent of bias under the current methods of data collection and recommend improvements.

Reported bus use has risen in London but continued to fall in all other regions in England

1.32 In the four years to 2004-05, there has been a reported growth of nearly eight per cent in the number of bus and light rail passengers in England, which is above the annual rate of 1.14 per cent needed to meet the target of more than 12 per cent across the 10 years to 2010-11. The key factor in progress to date has been the 32 per cent increase in bus use in London, which by 2004-05 accounted for 44 per cent of all bus journeys in England. But there has been a continued decline in reported bus and light rail use outside London, where passenger numbers have fallen by seven per cent. Bus and light rail use has fallen in all of the eight regions (Figure 4).

Despite the reported fall in bus use in all regions outside London, the Department expects to achieve its target at the national level in 2010

1.33 In their 2004 Annual Progress Reports on their Local Transport Plans, over half of the local transport authorities reported that they were 'on track' to achieve their targets for growth in bus passengers and the Department calculated that, together, these would average some nine per cent growth by 2010-11, turning around historic declines in bus use. However, these projections may include an optimism bias, as the returns upon which they are based are provided by authorities for Departmental review of past and future capital funding decisions. And, authorities' targets and projections do not allow prediction of whether this projected overall increase will also deliver the target for increased bus passengers in all regions from 2008 to 2011.

1.34 In March 2005 we carried out a survey of a selection of local authorities to ascertain their latest targets and projections of likely passenger numbers in their areas. Three-quarters of the respondents had set a target for increasing bus passenger numbers for the period 2000 to 2010. The remainder had not, however, nor more specifically for the period 2008 to 2011. One third of respondents considered that bus passenger numbers in their area were likely to rise by at least 10 per cent from 2000 to 2010, while half considered they were likely to increase in the period 2008 to 2011 in response to initiatives already undertaken or planned. Other authorities were not confident that existing and planned initiatives would result in an increase in passenger numbers. The Passenger Transport Executives' Group (PTEG) told us that it expects achieving the regional target to be a major challenge because of a decline in the number of elderly people relying on buses and rising bus fares, but that the government's decision to increase the national minimum for concessionary fares to fully free fares would help.

1.35 Based on authorities' 2004 Annual Performance Reports, the Department expected to be able to meet its national target in 2010 (**Figure 11**), on the assumption that:

- the Mayor of London would meet his target for increasing the number of bus passengers by 40 per cent between 2000 and 2011;
- light rail growth would average five per cent a year from 2004-05 to 2010-11, compared with an average growth rate of six per cent in the four years 2000-01 to 2003-04; and
- bus use outside London would decline on average by no more than 0.5 per cent a year from 2004-05 to 2010-11, compared with an average 1.7 per cent decline in the four years 2000-01 to 2003-04.

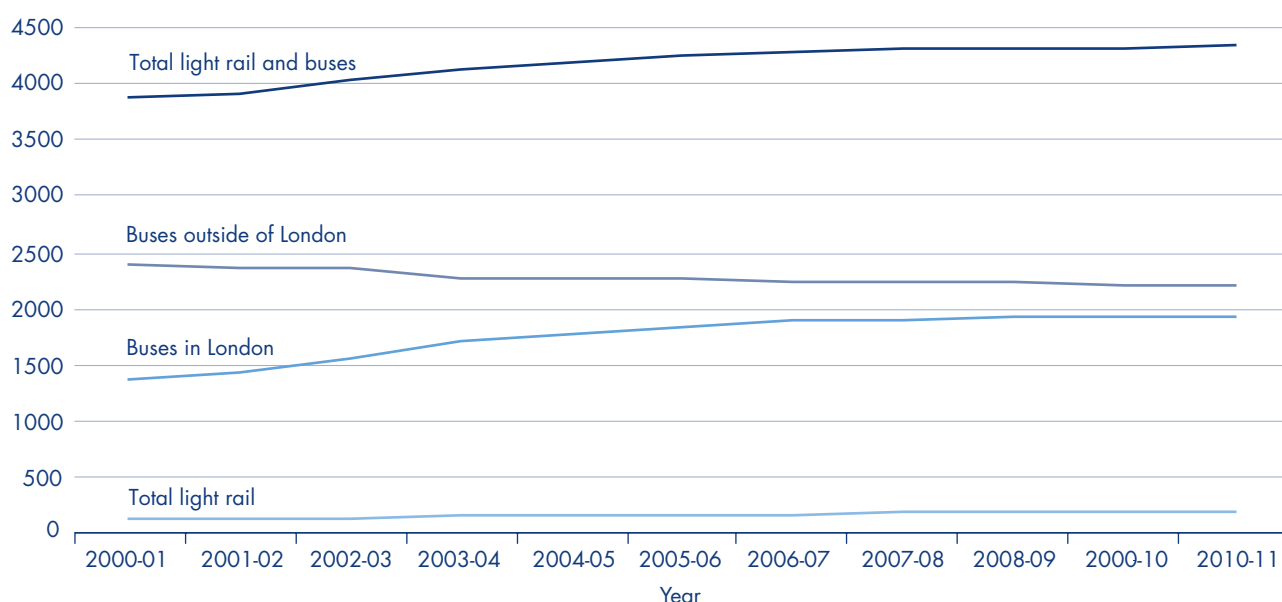
The Department did not account for any increase which might be achieved by its proposed Transport Innovation Fund, and it made its projections before the budget announcement in March 2005 that the national minimum for concessionary travel would be extended to provide free fares with effect from 2006. The Department estimates that the extension of concessionary fares might boost bus passenger numbers by up to 5 per cent.

1.36 Passenger data for 2004-05 have shown that bus use outside London has continued to decline, by 2.3 per cent in the year. The Department is reviewing authorities' latest projections for bus passenger numbers, in their 2005 Annual Progress Reports, to assess progress against the national target. In London, passenger numbers in the early part of 2005-06 were no higher than in 2004-05, partly as a result of increases in fares. The terrorist attacks in July 2005 may have contributed to a larger than expected fall in passenger numbers in the month, but passenger numbers have since returned to previous levels.

11 The Department's projections of passenger growth on buses and light rail

The Department expects to meet its target for growth overall through growth in bus use in London and in light rail use across England.

Passenger journeys (million)



Source: Department for Transport

2.1 This Part of the report examines the delivery of bus services in London. We convened a workshop of representatives from bus operators, Transport for London (TfL), London Boroughs, the Government Office for London, the Department for Transport (the Department) and the Office of the Deputy Prime Minister (ODPM) to examine the delivery chains for providing bus services and followed these workshops with visits to Transport for London and the boroughs of Croydon, Wandsworth and Westminster.

Transport for London has clear responsibility and the powers to deliver improvements in bus services in London

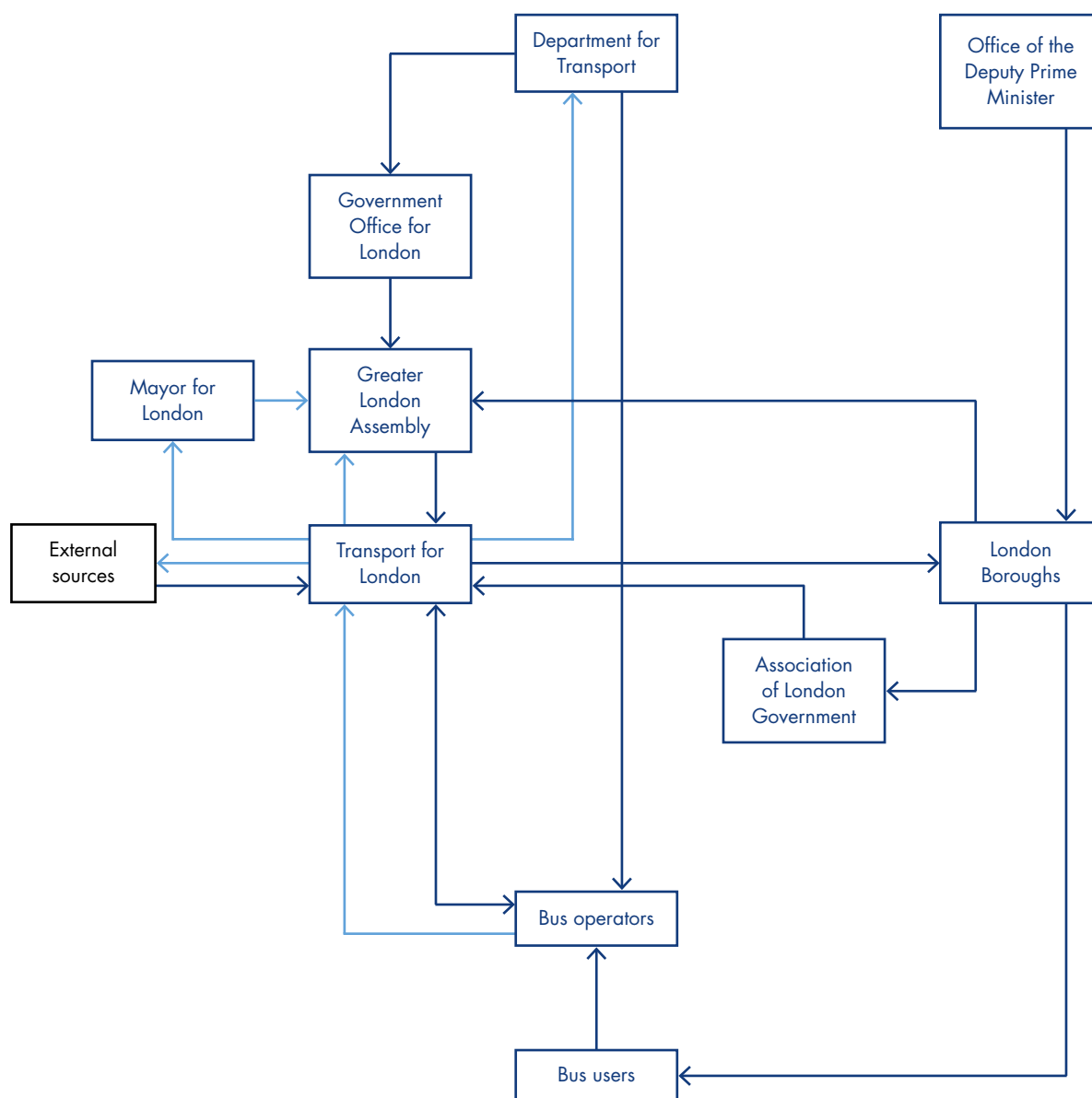
2.2 Transport for London has a pivotal role in planning, procuring and regulating bus services in London. Under the Greater London Authority Act 1999, the Mayor of London has personal responsibility for setting the transport strategy for London, in consultation with the Greater London Assembly. The Mayor can direct TfL in carrying out its work to deliver his transport strategy. TfL determines the extent of the London bus network. It seeks tenders from operators to provide services on the bus network. TfL carries the revenue risk, setting and receiving fares and paying operators for providing services.

TfL has had the resources to sustain and expand bus services in London

2.3 In 2004-05 TfL planned to spend some £1.6 billion on bus services in London, consisting of some £1.445 billion on operating costs (including some £43 million on London Buses' administration costs), £85 million on transport policing and enforcement and £97 million on bus priority routes and bus-related capital investment. Fares totalled £733 million and met 51 per cent of the operating costs. They were supplemented by several other sources of funding (**Figure 12 overleaf**):

- concessionary fares reimbursement from the Boroughs and other local authorities totalling £140 million in 2004-05; and
- grants, other general receipts, borrowing and council taxes, totalling £706 million from:
 - Transport Grant from the Department for Transport, designated for capital or revenue expenditure and ring-fenced for TfL's use. In 2004-05 TfL received Grant totalling £2.3 billion;
 - other general receipts, including congestion charging and third party funding. In 2004-05 TfL budgeted to collect net income of £61 million;
 - since 2004, the Mayor has also had the authority to seek prudential borrowing from financial institutions. In 2004-05 TfL borrowed £196 million; and
 - the council tax precept. In 2004-05 TfL received £26 million from this source.

12 Monetary flows and accountability in the bus delivery chain in London



Source: National Audit Office and Audit Commission

NOTE

TfL draws on grant funding, fares and other funding to provide bus services in London and through contracting with bus operators can hold them accountable for delivering services

Funding flows for bus services

The Department for Transport

Provides funding to Transport for London to cover revenue and capital costs, including those used in support of bus services (£2.3 billion in 2004-05).
Provides Bus Service Operators Grant to operators (£91 million in 2004-05).
Influences transport funding provided by ODPM to London Boroughs through Revenue Support Grant for concessionary fares.

Government Office for London

Passes Transport Block funding on to the Greater London Assembly.

Office of the Deputy Prime Minister

Provides funding to London Boroughs for concessionary fares.

Greater London Assembly

Approves Mayor's budget for TfL and funds to be provided from the Greater London Authority overall budget (£706 million in 2004-05).

Transport for London

Uses revenue from the Greater London Authority, Boroughs, fares and other external sources to:

- Contract with operators to provide bus services (£1,347 million in 2004-05);
- Provide London-wide concessionary fares scheme as agreed with Association of London Government on behalf of the Boroughs;
- Provide bus priority and other measures (£97 million in 2004-05);
- Fund Boroughs to undertake schemes on their roads (£26 million in 2004-05);
- Fund transport policing and enforcement (£85 million in 2004-05).

London Boroughs

- Provide funding to TfL for concessionary fares scheme via the Association of London Government (£140 million in 2004-05);
- Provide funding for Greater London Authority through precept (£26 million in 2004-05);
- Invest in bus priority and other schemes on Borough roads.

Bus operators

Pay licence fees to TfL.
Provide bus services under contracts with TfL.
Pay performance penalties as appropriate.
Receive Bus Service Operators Grant funding reflecting the mileage of the services run.

Bus users

Make 1,700 million journeys in 2003-04.
Pay fares (£733 million in 2004-05) or travel free with a concessionary fares pass.

Accountability for bus services

The Department for Transport

Agrees with TfL its contribution to the national PSA target.

Office of the Deputy Prime Minister

Oversees spending and delivery by Boroughs and TfL, delivery of efficiency savings and financial probity.

Greater London Assembly

Reviews and approves the Mayor's Transport Strategy and delivery of Strategy to budget by TfL.

Mayor of London

Develops Transport Strategy and approves Boroughs' Local Implementation Plans for delivery of Mayor's Transport Strategy.

Transport for London

Monitors operators' delivery against their contracts and licences. Reviews delivery of Borough Spending Plans and Local Implementation Plans. Handles complaints on bus services, including those received by others in the delivery chain.

Bus operators

Report to TfL on their delivery of services.

Bus users

Report complaints about service to TfL.

There are clear lines of accountability for bus services in London

2.4 Figure 12 shows that TfL is accountable for the delivery of the Mayor's Transport Strategy and, within it, the bus strategy. The Mayor took up office in May 2000 and in July 2001 set out in his Transport Strategy a target to increase bus use in London by 40 per cent by 2011. Subsequently, in 2002, the Department agreed shared priorities for delivery in London as part of wider discussions to establish shared priorities with the Local Government Association. But it was not until March 2005, following the outcome of the 2004 Spending Review, that the Department agreed with TfL and the Greater London Authority projections for the numbers of bus and light rail passengers in 2010 and hence their contribution to the national target.

2.5 TfL has the information it needs to account for bus services in London. It owns the bus network infrastructure, specifies the bus routes and timetables, and determines the information about bus services to be provided to potential passengers. Bus operators are required under the terms of their contracts to provide TfL with ticket machine information and service performance data. TfL also carries out its own surveys to monitor performance and passenger usage to monitor progress against its passenger and service performance targets.

Key elements in the delivery chains contribute to cost-effective delivery

2.6 Figure 11 shows that the delivery chain for bus services in London is straightforward. The Mayor's and TfL's statutory responsibility for determining and delivering a transport strategy for London is supported by TfL's role in contracting for bus services in the regulated market. And, the Mayor and TfL have control over the resources and information they need to manage delivery.

2.7 After confirming the delivery chain maps with stakeholders in London, we identified with them five key factors (**Figure 13**) that contributed to London's success in achieving growth in bus passenger numbers:

- the Mayor of London's commitment to achieving growth in bus use and to implementing complementary car restraint measures;

- significant investment in, and ongoing subsidy for, measures to increase demand for bus services and restrain car use;
- TfL's strategic planning and procurement of bus services within a regulated competitive market;
- the comprehensive provision and efficient administration of concessionary fares; and
- effective regulation and monitoring of bus services.

We examined these in our case study work at TfL, looking in particular at the types of areas identified in the Gershon Review as those where efficiency savings are most likely to be found – that is, procurement; the administration of concessionary fares; and capital investment.

Several elements of the London experience are relevant to other authorities

2.8 The Mayor's strategy to increase bus use, which contributes to his overall strategy for dealing with increased demand for travel arising from population growth and economic growth, has been assisted by several unique features. These include a low level of car ownership that has risen more slowly with economic growth than outside London; the high level of road traffic congestion in London that deters further car use; and high population density. In addition, the Mayor inherited a comprehensive bus network – 348 million kilometres of operating services. Conditions were therefore favourable for achieving an increase in bus use. And the Mayor has had significant resources to be used in support of bus services in London – using data collected by the Department on a common basis from TfL and local authorities, TfL's expenditure on buses, excluding the cost of Boroughs' subsidy for concessionary fares, amounted to 31 pence per passenger journey in 2004-05, compared with the subsidy cost of bus services to the Passenger Transport Authorities of 11 pence per passenger journey, excluding concessionary fares.²⁹ There were, however, four key features of the Mayor's and TfL's approach to public transport that were instrumental in the growth in bus use, which are applicable to authorities outside London.

²⁹ Source: Department for Transport, Transport Statistics of Great Britain.

13 Five key factors in the cost-effective delivery of bus services in London

Strengths within the delivery chain for bus services in London contribute to its success in increasing passenger numbers cost-effectively.

Effectiveness

Commitment to achieving growth in bus use

The Mayor and TfL developed the Transport Strategy for London to meet increasing demand for transport. The Mayor provided a clear and strong commitment to deliver his strategy, underpinned by a target to increase bus patronage well beyond the Department's target. The Mayor and TfL have worked to find the resources to deliver against the target.

Efficiency

Regular efficiency reviews. TfL was assessed by the Audit Commission as "excellent" in its most recent Initial Performance Assessment.

Investment in package of measures to increase demand for buses whilst restraining car use

The Mayor's Transport Strategy contained measures to promote bus use and proposals for the congestion charge to reduce congestion and increase journey speeds for buses and other priority vehicles.

TfL has invested in measures to address all five of the Department for Transport's key factors affecting bus passenger numbers – accessibility, punctuality, reliability, security and customer satisfaction.

At the same time, TfL has directly addressed 'risk factors'. The congestion charge has been introduced in central London. This has reduced congestion for buses and made bus use more financially attractive compared with the private car. TfL did not increase bus fares between 2000 and 2004, in order to encourage use of buses, and a shift of passengers from the underground to buses. Following the introduction of the Oyster smartcard, TfL increased fares in 2005 and for 2006 Oyster fares will be frozen at 2005 levels while cash fares will increase.

TfL and the Boroughs are responsible for implementing bus priority schemes on their respective road networks. Both are subject to Best Value regimes, and TfL has enabled the Boroughs to use its contractors but has not worked with the Boroughs to establish whether this London-wide contracting would produce efficiency improvements.

Strategic planning and procurement of bus services within a regulated market

TfL has developed its partnership with the 33 London Boroughs, bus operators and the police, to develop a best practice framework and to oversee route by route reviews of total journey quality, and the planning and delivery of changes from end to end of the routes.

TfL has also adopted a strategic approach to contracting, to save money and improve bus services.

TfL has worked to keep down the cost of its own and operators' administration costs by:

- using a common tender process;
- providing extensive information to all potential contractors on its website; and
- using a single form of contract with standard requirements to reduce the cost of the contracting process.

It has also built clear incentives and early termination arrangements for poor performance into its contracts with operators. The contracts provide for bonuses of up to 15 per cent of the contract cost for achieving lower waiting times and better punctuality than their targets, and penalty deductions of up to 10 per cent of the contract cost for missing the targets.

13 Five key factors in the cost-effective delivery of bus services in London *continued*

Effectiveness

The provision and administration of concessionary fares

TfL has continued previous arrangements for providing a London-wide concessionary fares scheme, and is supported in doing so by its statutory power should Boroughs fail to agree a London-wide concessionary fares policy for buses and the London Underground. It has introduced free travel to children under 16 years old, to encourage greater use of buses, and is committed to introducing free travel for under 18s in 2006.

Efficiency

The regulated market in London removes the need to determine how to reimburse bus operators for the revenue foregone as a result of concessionary fares.³⁰ This enables TfL and the Boroughs to run the concessionary fares scheme at a low administration cost of 90 pence per pass issued compared with the administrative cost outside London of some £3.70 per pass issued. They are working to reduce administration costs further through negotiating for three-yearly determination of Boroughs' reimbursement for the scheme.

Regulation and monitoring of bus services

TfL has clear responsibility and the contractual powers necessary to hold operators to account for delivery of bus services in London. Its Quality Incentive Contracts, with bonuses and penalties, provide bus operators with real performance incentives.

TfL monitors operators' performance and there is no duplication in data collection. TfL has also streamlined its complaints handling system to improve efficiency.

Source: Audit Commission and National Audit Office

Improving bus services based on market research

2.9 In determining its investment strategy, TfL has built on its inheritance and developed its capacity in transport planning. TfL undertakes extensive market research to identify factors contributing to passengers' decisions to use buses. And it has a programme for continuous rolling reviews of routes. These involve gathering of information on passenger demand and appraisal of the options. The reviews have informed TfL's investment priorities and its delivery of its strategy – including providing more buses to provide more frequent services, additional services and more investment in the quality of bus services. Routes are formally reviewed prior to re-tendering and in addition are reviewed in the context of other changes such as the introduction of the congestion charge, property development, or railway schemes.

Exploiting economies of scale

2.10 The Mayor has sought and secured increased funding to deliver his strategy and related investment plans. TfL's revenue spending on bus services has risen substantially – by 56 per cent a year in real terms in the four years to March 2005 compared with an increase of two per cent a year outside London.³¹ In 2004 the Mayor secured a long-term funding commitment from the Department for Transport, to cover the period 2005-06 to 2009-10, enabling a further 5.8 per cent year-on-year increase in expenditure on buses to 2009-10. TfL's capital expenditure has not been relatively so high compared with local authorities' spending outside London – in 2004-05 TfL spent £97 million on bus priority schemes and other bus related measures such as new bus garages and interchange facilities, compared with £287 million in local authorities outside London in 2003-04.³²

2.11 The scale of the bus network in London is not comparable with networks outside London, and has enabled TfL to invest in schemes across a large network, producing improved service to customers, for example from through-ticketing and interconnectivity, and economies of scale. For example, TfL is upgrading radio equipment and installing a new automatic vehicle

30 Outside London bus operators are reimbursed for the revenue foregone as a result of providing concessionary travel to leave them no better and no worse off.

31 Source: Department for Transport, Transport Statistics of Great Britain.

32 Source: Chartered Institute of Public Finance and Accountancy (CIPFA).

location system across the fleet of buses so that by December 2008 it will support the introduction of a network-wide real-time information system. At the same time, TfL has worked towards greater efficiency through removing the payment of cash fares from the bus, and moving to on-street ticket machines, Oyster Cards and readers. These reduce passengers' boarding time on buses, enabling quicker journeys and less delay to other traffic, and also achieve savings estimated by TfL to rise to £42 million a year in 2009-10 by enabling fewer buses to be run for the same level of service and removing the need for bus conductors.

2.12 TfL has used its scale to develop strategic procurement and keep down the cost of its contracts for bus services. It owns a number of local bus depots which are leased to the successful bidder to increase competition. It has brought consistency of approach to its contracting processes to reduce its own and operators' administrative costs, for example using a common tender process, providing extensive information to all potential contractors on its website, and using a single form of contract with standard requirements and incentives. And it has used its subsidiary, East Thames Buses, to run services as an operator of last resort, where the bids for routes have been too high or too low for the quality of service required or where operators have gone out of business. TfL has undertaken periodic reviews of whether it is obtaining best value from its contracting – looking at the value for money from its subsidy cost per passenger, fare levels, and the proportion of cost recovered through fares.

Implementing a package of measures to encourage a shift from cars

2.13 TfL has undertaken research and developed and implemented a package of measures to meet the particular requirements of potential bus users in London. Its measures include: contracting with operators to provide low-floor buses on all routes to enable disabled people and people with buggies to use buses; reviewing information on bus stops to help people plan their routes better; and working with the police to reduce crime on buses. Alongside measures to improve bus services, the Mayor and TfL introduced the congestion charge to reduce congestion, which also reduced the difference in price between buses and car travel, improved bus service journey times and generated revenues that were used for investment in public transport.

Building partnerships with other authorities

2.14 The Mayor's and TfL's ability to achieve growth in bus use depends to a large extent on co-operation with London's 33 Boroughs. The Boroughs are responsible for funding concessionary fares and providing passes; infrastructure work, such as bus lanes or new traffic signals to support bus priority, on local roads;³³ parking policy and enforcement on local roads; and planning approval.

2.15 TfL has worked with the Boroughs to achieve consistency in approach London-wide, across TfL's roads and local roads. TfL has statutory and financial powers to influence Boroughs – Boroughs should consult TfL on transport matters associated with planning applications; Boroughs need approval and funding from TfL for their Spending Plans for bus-related investment, and with effect from December 2005 TfL will monitor Boroughs' transport planning, as set out in their five-year Local Implementation Plans to deliver the Mayor's Transport Strategy.³⁴ But TfL has also sought to work with Boroughs operationally – for example, TfL has established Service Level Agreements with the Boroughs for enhanced enforcement on key local roads. This enables a common approach to use of camera enforcement across all bus lanes and key hotspots, such as box junctions.

2.16 TfL has identified the opportunity to achieve savings from expenditure on roadworks through joint procurement by the Boroughs and TfL. We found, however, that Boroughs were concerned to keep their own contracts, on the grounds that this ensured their work got priority and was done to their quality requirements. TfL has established a working group with the Boroughs to pursue joined-up working on operations, contracts and procurement. If joint procurement could achieve savings of some 2 per cent this would amount to savings of some £2 million for TfL and the Boroughs.

³³ Local roads are the 95 per cent of roads in London which are not main roads and so are not directly the responsibility of TfL.

³⁴ The Greater London Authority Act 1999 requires Boroughs to draw up Local Implementation Plans to deliver the Mayor's Transport Strategy. TfL has the authority to approve these plans and will use them to determine its capital funding for local schemes.

PART THREE

Bus services outside London



3.1 This Part of the report examines the delivery of bus services outside London. We convened two workshops of representatives from bus operators, local authorities, the Traffic Commissioners, regional Government Offices, the Department for Transport and the Office of the Deputy Prime Minister (ODPM) to examine the delivery chains. We followed these workshops with four case studies of local authorities in Essex, Northamptonshire, Merseyside and York where we interviewed local authority staff, bus operators and other stakeholders. We supplemented the results of our case studies with a survey of a selection of other local authorities, consultation with key stakeholder groups and a visit to Brighton and Leicestershire to discuss particular features of their work (details of the methodology are provided in the Appendix).

Delivery chains outside London depend on commercial operators, where local authorities have few direct levers

3.2 Outside London, bus services were ‘de-regulated’ under the Transport Act 1985. In 2003-04, almost 80 per cent of bus services outside London (measured by vehicle kilometres) were commercial services – where licensed bus operators have registered to run services on routes they choose, setting their own fares and taking the commercial risk. The remainder of local services (“supported services”) are run by operators under contract to the Passenger Transport Executive or local authority. Outside London the bus market is provided predominantly by the three large national operators, with services in individual areas often mainly provided by one operator

from a local bus depot. The Traffic Commissioners register bus services and are responsible for monitoring that provision is in accordance with the registered timetable.

3.3 Commercial services run on routes determined by the bus operators, with support from the Bus Service Operator’s Grant but without direct subsidy from local authorities, other than reimbursement of concessionary fares. Commercial operators are free to innovate and introduce new services, set their fares and decide on changes to routes or timetables, including increasing the frequency of services. They may innovate and achieve significant passenger growth, or keep to routes whose commercial viability is proven. They may cease to run routes or individual services if they become unprofitable. Operators’ decisions about innovating or seeking growth in passenger numbers depend on their attitude towards risk, the strength of the market, the level of competition and the level of local authority investment in bus-related infrastructure. Operators may decide to invest in high quality services; or cut prices and provide low quality services; or stop operating certain routes.

3.4 Given that most bus services are commercial, local authorities outside London must seek to work with the operators of these services if they want to deliver increases in bus passenger numbers to contribute to the national target. To effect change on commercial services, local authorities may invest in schemes to support bus services, such as bus priority schemes, and seek to enter into voluntary partnership with operators. Under the Transport Act 2000, local authorities can also establish Quality Partnership Schemes, under which the authorities invest in infrastructure, such as new bus stations or real time passenger information systems for services across the whole

or part of their areas, and operators who wish to use the facilities must agree to provide their services to a particular standard, for example through investing in improved buses or driver training. Under statutory Quality Partnership Schemes, local authorities can prohibit operators not agreeing to meet their standards from using the facilities, but they cannot specify fares or service frequency.

3.5 Alternatively, where commercial operators are not providing services, local authorities may choose to tender for an operator to provide services with subsidy support, in order to meet the authority's transport, social or other wider objectives. For these services, which accounted for some 20 per cent of bus services outside London, local authorities have direct controls over key factors such as routes, fare levels and timetables.

3.6 If local authorities consider they cannot otherwise deliver their local bus strategy, they can seek authority from the Secretary of State to invite tenders from operators to provide bus services under Quality Contracts, and remove operators' right to run commercial services. To do so, they must demonstrate that a Quality Contract is the "only practicable way" to implement the strategy and that it provides value for money. By May 2005, no statutory Quality Partnership Schemes or Quality Contracts had been put in place, although many informal quality partnerships existed.

3.7 The delivery chain for growth in bus use outside London therefore depends heavily on the operation of market forces and the initiative, capacity and commitment of the local bus operators. Through investment in bus infrastructure and bus priority schemes, local transport authorities can support operators' investment in bus services and through subsidy they can provide additional services to meet their social inclusion objectives. In practice the Association of Transport Co-ordinating Officers found that, in the late 1990s, the rate of de-registrations of routes increased year-on-year across much of the country. Since then the rate of de-registration by operators has slowed, although a quarter of the counties and over a third of the unitary authorities and Passenger Transport Authorities still reported de-registrations accelerated in their area between 2003 and 2004.

The delivery chain is further complicated by the variation in transport roles between the tiers of authorities

3.8 Transport roles and responsibilities vary across the different types of local authority. The chains are the least complicated in areas covered by unitary authorities, where a single tier authority is responsible for all local government matters, including transport. They are more complicated where there are two or three tiers of authorities.

3.9 In metropolitan areas, Passenger Transport Authorities and Executives are responsible for passenger transport policy and delivery and concessionary fares, in association with the Metropolitan District Councils which have important roles as highways and planning authorities. By contrast, shire counties have responsibility for public transport and highways. But District, and sometimes Town or Parish Councils, also have crucial roles, such as determining car parking, planning and concessionary fares policies, and providing bus shelters and they have the powers to subsidise bus services.

Local authority funding for bus services is separated between capital funding linked to the Local Transport Plan process and revenue funding through Revenue Support Grant

3.10 Outside London, commercial bus services are funded through fare revenues and reimbursement from local authorities for fares foregone under agreed concessions, and Bus Service Operators Grant. Routes that are not commercially viable, known as supported services, also receive subsidy from local authorities. New buses are normally funded by the bus operator, sometimes with grants from the local authority. Investment in bus-related infrastructure, such as bus stops and bus priority schemes, is normally funded by the local authorities (**Figure 14 on page 48**).

3.11 The Department for Transport provides local authorities with capital funding for bus infrastructure improvements, totalling £188 million in 2004-05. Local authorities' revenue spending in support of local bus services, which totalled £638 million in 2004-05 including spending on the reimbursement of operators for concessionary fares,³⁵ comes from Revenue Support Grant (which, in accordance with government policy for local government funding, is not ring-fenced for transport) and other grants and revenue sources. Local authorities determine their spending on transport, including bus

35 DfT update to Transport for Great Britain statistics.

services and concessionary travel, within their overall consideration of their budget, and it might therefore fluctuate significantly in response to budget pressures, demands for spending on other areas such as education and housing, and/or changes in political emphasis. Revenue funding may come from:

- Revenue Support Grant provided by central government, which supports all local government activities and does not identify a specific or ring-fenced element for local transport or for concessionary fares;
- Rural Bus Subsidy Grant from the Department for Transport to improve rural accessibility. Initially ring-fenced, but since 2004 the Department has allowed local authority discretion in its use. These grants totalled £50 million in 2004-05;
- Rural and Urban Bus Challenge funds from the Department for Transport, ring-fenced to deliver particular services or investments. These Challenge funds totalled £36 million in 2004-05 and are due to finish in 2006;
- Council Tax; and
- other local sources of revenue, such as developer contributions, car parking charges or advertising income.

Separately, local authorities receive funding through Revenue Support Grant for home to school transport, and in 2004-05 budgeted to spend £350 million on home to school transport, excluding transport for special educational needs.

Local authorities are accountable for delivering improvements in local transport, but bus operators are not accountable to them in respect of commercial services

3.12 Local authorities are accountable for delivering improvements in local transport through the Local Transport Plan system. Within these, the Department for Transport expects Transport Authorities to set targets for bus passenger growth to enable it to deliver the national PSA target (paragraphs 1.13 to 1.14). To deliver their own targets, authorities may invest in bus priority measures and improved infrastructure, such as bus stations.

3.13 Figure 14 shows that there is a disconnection between the operators of commercial bus services and accountability for achievement of the national PSA target. Operators' commercial incentive to increase

revenue may spur them to seek increased bus use and to work in partnership with local authorities on the provision of bus lanes and other bus priority measures. But their accountability is to the Traffic Commissioners – for providing commercial services in accordance with their registered timetables and within the terms of their operators' licences. In keeping with the government's policy of having a de-regulated bus market outside London, they have no direct accountability to local authorities for commercial services, although they can be required to provide local authorities with data on passenger numbers and they may also report key information about their services and passenger profiles in connection with negotiation of concessionary fares reimbursement or under partnership arrangements. Yet it is local authorities who are accountable to the Department for Transport for delivery of local transport schemes, local targets for passenger growth and their contribution to the achievement of the national PSA target.

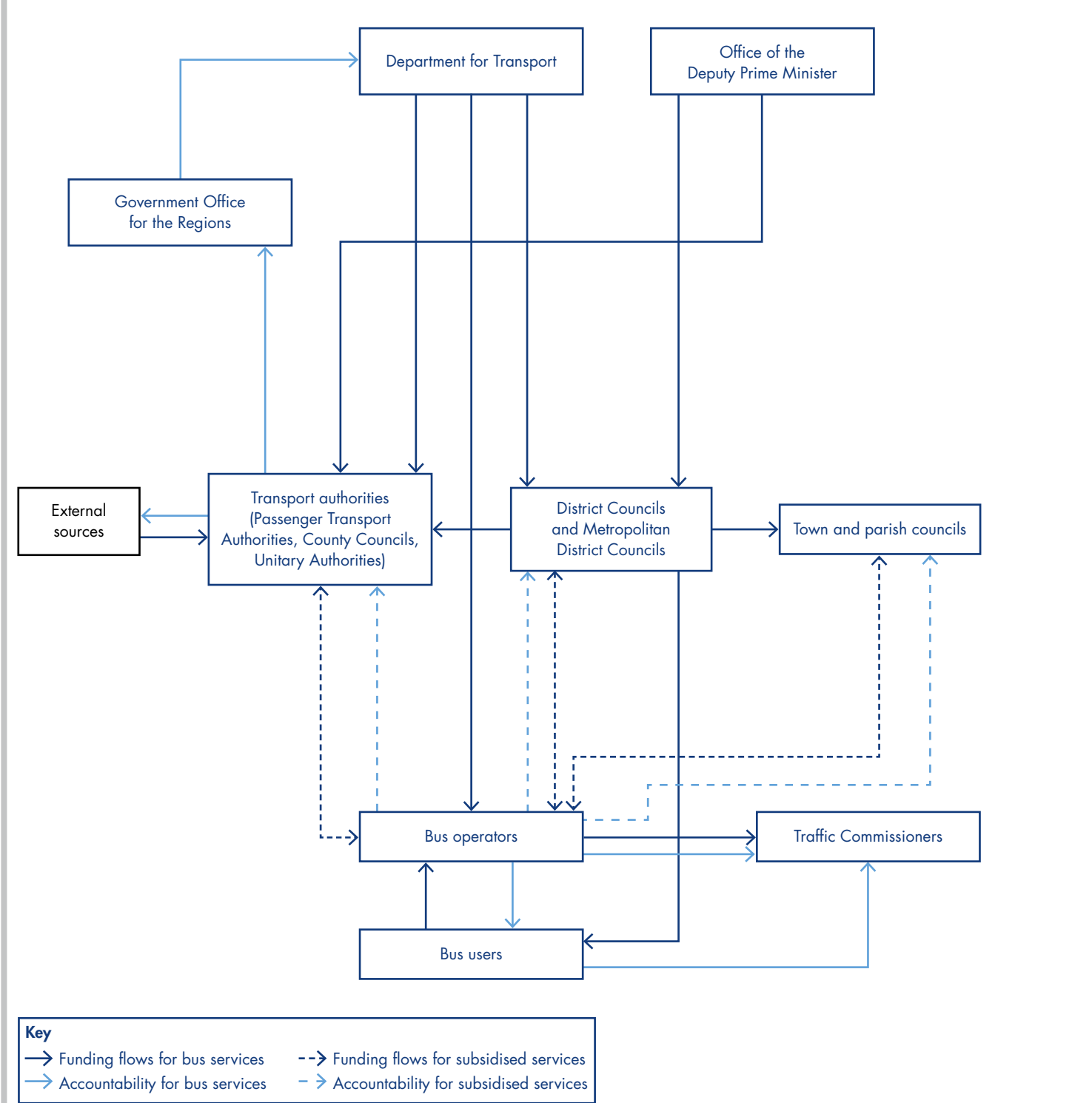
Bus use has risen in some local authority areas, but key elements within the delivery chain can act as barriers

3.14 Taken together, the delivery chain for bus services outside London is complicated, contrasting with the more straightforward chains in London. In the deregulated market, operators may innovate and respond flexibly to changing demand and they may work in partnership with authorities, to encourage bus use. Passenger numbers have, however, declined in all regions outside London, although there are areas and bus operators that have succeeded in attracting substantially higher numbers of people to use buses. In our workshops, stakeholders identified factors – beyond the level of resources available for bus services – that are important to the successful operation of the delivery chain, similar to those identified for London:

- commitment to achieving growth in bus use;
- investment in a package of measures to increase demand for bus services;
- strategic planning, partnership working between local authorities and bus operators in a deregulated market and effective procurement of local bus services;
- the provision and administration of concessionary fares; and
- regulation and monitoring of bus services.

14

Monetary flows and accountability in the bus delivery chain outside London



Source: National Audit Office and Audit Commission

NOTE

The government subsidises bus services directly through Bus Service Operators Grant and indirectly through its funding to local authorities, but bus operators are only accountable to local authorities in respect of services they subsidise.

Funding flows for bus services

The Department for Transport
Sets national strategy and target.
Influences transport funding provided by ODPM to local authorities through Revenue Support Grant.
Provides Bus Service Operators Grant to operators (£268 million in 2004-05).
Provides capital funding for bus-related schemes set out in transport authorities' Local Transport Plans (£188 million in 2004-05).
Provides ring-fenced funding for bus services – Rural Bus Subsidy (£50 million in 2004-05), Challenge funding (£36 million in 2004-05).

Office of the Deputy Prime Minister
Provides Revenue Support Grant funding to County Councils, District Councils, Metropolitan Boroughs.

Passenger Transport Authorities, County Councils, Unitary Authorities, District Councils, Town & Parish Councils
Use revenues and other sources to fund contracts with bus operators to provide bus services accounting for some 20 per cent of services (£309 million in 2004-05).

County Councils, Unitary Authorities and Metropolitan District Councils
Invest in bus priority and other road measures to improve bus services (£287 million in 2003-04).

Passenger Transport Authorities, Unitary Authorities and District Councils
Negotiate and reimburse operators to provide concessionary fares (£329 million in 2004-05).

Bus operators
Provide bus services under contracts with local authorities (some 20 per cent of services).
Provide bus services commercially (nearly 80 per cent of services).
Receive Bus Service Operators Grant funding reflecting the mileage of the services run.
Receive concessionary fares reimbursement.
Pay licence fees to Traffic Commissioners and penalties where imposed.

Bus users
Make 2,300 million journeys in 2003-04.
Pay fares or concessionary fares, supported by concessionary fares pass.

Accountability for bus services

The Department for Transport
Reviews and approves Transport Authorities' Local Transport Plans.

Government Offices for the Regions
Advise DfT on Transport Authorities' Local Transport Plans.

Office of the Deputy Prime Minister
Collects and collates information on overall spending and delivery by all local authorities, delivery of efficiency savings and financial probity.

Transport authorities
Accountable to DfT for delivery of Local Transport Plan, including delivery towards the national PSA target and use of capital funding and other ring-fenced funding for bus services.

Passenger Transport Authorities, County Councils, Unitary Authorities, District Councils, Town & Parish Councils
Monitor operators' delivery on the 20 per cent of services which they subsidise.

Traffic Commissioners
Receive, investigate and adjudicate on complaints about reliability and punctuality of bus services.

Bus operators
Accountable to Traffic Commissioners for the reliability and punctuality of registered routes.
Report to authorities on performance on the 20 per cent of services which they subsidise.

Bus users
Expected to report complaints to Traffic Commissioners.

3.15 In our case studies and survey we explored how these factors contributed to authorities' success in increasing bus passenger numbers cost-effectively, and we

identified barriers inhibiting other authorities' progress in achieving passenger growth (**Figure 15**).

15 Critical factors in the bus service delivery chain outside London

Complexity in the delivery chain for buses outside London can be overcome by authorities committed to delivering improved bus services.

| Progress | Barriers | Success factors |
|--|---|---|
| Commitment to achieving growth in bus use | | |
| Local authority commitment to increasing bus use is growing but it is uneven across the country. | <p>Targets lacking or not genuinely owned by the transport authority or the other authorities in their area, the metropolitan boroughs or the districts.</p> <p>Local authorities seeing commercial bus services as the responsibility of bus operators.</p> | <p>Leadership from the local authority or bus operator and joint working can energise the delivery chain.</p> <p>Authorities with consistent commitment to sustainable communities and providing alternatives to the private car see the relevance of increasing bus use.</p> |
| Investment in package of measures to increase demand for bus services | | |
| Investment in bus infrastructure has increased substantially but bus priority measures are still relatively limited and few authorities have restrained car use. | <p>Fragmented ownership of bus infrastructure.</p> <p>Metropolitan District Councils (responsible for highways, planning and car parking) and District Councils (responsible for planning, parking and enforcement and concessionary fares) not fully supporting their transport authority's public transport policies.</p> <p>Fear of damaging local economy or upsetting motorists by restraining car use.</p> <p>Local objections, for example to changes in road priority or layouts, override strategic objectives of promoting public transport.</p> | <p>Public acceptance that current levels of car traffic or increased levels are undesirable.</p> <p>Seeking sources of capital funding and making good use of it to invest in bus services.</p> <p>Coherent arrangements for maintenance and improvement of bus infrastructure.</p> <p>Integration of Park & Ride with other local bus services.</p> |
| Partnership working between local authorities and bus operators and strategic procurement of local bus services | | |
| Limited systematic review by authorities of the bus network in their area. Patchy progress in establishing meaningful partnerships with bus operators and in applying a strategic approach to the procurement of complementary supported services. | <p>Lack of joint working by authorities in developing partnerships with commercial operators.</p> <p>Bus operators not able or willing to improve services. Abrupt service changes and service instability.</p> <p>Local authorities' and operators' concerns and misunderstanding about bus competition regulations.</p> <p>Local authorities not applying modern procurement techniques to bus contracts – large numbers of small contracts, with wide variation in subsidy cost on different routes and between authorities, and variation in authorities' procurement administration costs.</p> | <p>Comprehensive reviews of the range of transport requirements in an area, for schools, local amenities, employment and social services and how best to meet them through local public transport.</p> <p>Long-term commitment by local politicians to reviewing need for bus services, and developing them in partnership with operators, and investing in bus infrastructure.</p> <p>Favourable market conditions, allowing operators to see investment benefits.</p> <p>Involvement of bus operators in framing contract terms.</p> <p>Cross-boundary tendering across unitary authority and surrounding counties.</p> |

15 Critical factors in the bus service delivery chain outside London *continued*

| Progress | Barriers | Success factors |
|--|---|--|
| The provision and administration of concessionary fares | | |
| Wide variety of schemes which are complex and confuse the public. | <p>District Councils setting local concessionary schemes, bringing high administrative costs through many small authorities holding separate complex negotiations on reimbursement with bus operators.</p> <p>Budget pressures limiting concessionary fares expenditure.</p> <p>Concessionary fares resource not restricted to use on public transport. Decisions reflecting the local need to balance demands of equity and accessibility with support for public transport.</p> | <p>Cross-boundary concessionary fares schemes at little additional cost.</p> <p>Reimbursement co-ordinated at strategic level.</p> <p>Clear linkage between concessionary fares and transport policy.</p> |
| Regulation and monitoring of bus services | | |
| Little formal monitoring of, or accountability for, the quality of commercial bus services in the deregulated market, on behalf of local people. | <p>Limited resources of Traffic Commissioners.</p> <p>Authorities reluctant to damage relations with local bus operators.</p> <p>Lack of information-sharing between operators, local authorities and Traffic Commissioners.</p> | <p>Clear protocols for handling passenger complaints.</p> <p>Local monitoring of service quality – commercial and supported services, including monitoring of punctuality through new Punctuality Improvement Partnerships.</p> <p>Local authority accepts accountability for congestion delays.</p> |

Source: Audit Commission and National Audit Office

There is scope for local authorities to make the delivery chain more cost-effective

3.16 We identified several areas where changes by local authorities and others in their approach, ways of working and in the design of parts of the delivery chain could improve their ability to contribute to achieving the national PSA target, whilst at the same time making the delivery chain more efficient.

Greater commitment to improved bus services and complementary measures

3.17 Operators and others were clear that local authority commitment is critical in supporting operators' initiatives or energising the delivery chain. Despite having targets in their Local Transport Plans, some local authorities have

been reluctant to take ownership of a target for increasing passenger numbers. They have argued that, as they do not control the commercial bus network, they should not be accountable for seeking an increase in bus use. We found that local transport authorities increasingly see buses as important for tackling congestion and providing alternatives to the car in urban areas, although they do not always complement this with a commitment to make car use less attractive than public transport and such commitment is not always shared by key partners in the delivery chain. Alongside Passenger Transport Authorities, Metropolitan Councils are equal signatories to Local Transport Plans, while District Councils sign to indicate their support for the County Council's Local Transport Plan. But Passenger Transport Authorities and County Councils have no means of holding Metropolitan District Councils and District Councils to account.

3.18 Joint commitment to the Local Transport Plan is particularly important in the metropolitan areas, because delivery responsibility is spread across the Metropolitan Borough Councils, which are the highway authorities, and the Passenger Transport Authority, which is responsible for transport planning, concessionary fares policy and supporting bus services. The commitment of highway authorities is vital to implementing bus priority measures. But commitment is also important in County Councils. In our case studies, we found that District Councils could be actively engaged in transport issues, such as the setting of local concessionary fares or local parking policies, but still did not feel accountable for contributing towards the target of increasing bus use.

3.19 Further, there is often reluctance amongst local authorities to implement car restraint measures to complement others designed to increase demand for buses. Figure 8 shows that many local authorities have invested in positive measures to support bus use, such as new park and ride schemes, but few have adopted complementary measures to restrain car use, such as workplace parking levies and congestion charging.

Reviewing supply to better match demand

3.20 The Local Transport Plan system is widely seen as an improvement on the previous system and effective as a means of ensuring strategic review of local transport investment plans. From our survey, however, it was evident that whilst some authorities had undertaken a fundamental review of all or some of the bus network in their area since 2000, not all had done so despite strong encouragement and guidance from the Department. They had not therefore undertaken work since their first Local Transport Plan to establish travel patterns, the ability of commercial bus services to meet the authority's target for passenger growth and rural accessibility, and the best use of subsidy to achieve growth. Local authorities that fully integrate their bus strategy with the main Local Transport Plan, clarify the balance between their strategies to secure accessibility and change in people's mode of transport from cars onto buses, and secure appropriate medium-term revenue funding, are more likely to be successful in delivering efficient services or passenger growth. For example, Leicestershire reviewed bus services with the aim of achieving an hourly or better daytime bus service within 800 metres of 95 per cent of Leicestershire

people; and locally-determined services for the remaining five per cent of people, most of those living in small rural communities. As a result of the changes, it has withdrawn some services but achieved passenger growth on contracted bus services overall of 14 per cent in 2003-04.

Bringing budget stability and longer-term planning to the provision of bus services

3.21 Expenditure by local authorities on bus services has increased sharply since 1997-98, particularly in non-metropolitan areas. Despite increasing resources generally, some local authorities have not set stable budgets, resulting in fluctuations in the levels of support for bus services and concessionary fares. These fluctuations can cause planning difficulties for bus operators and uncertainty over the future for existing services for passengers. For example in one of the counties we visited, a Borough had announced withdrawal of all revenue support for bus services because of its severe budget problems. This resulted in the withdrawal of eight supported bus services and the weekend and evening services on another seven routes, which together had carried 225,000 passengers in 2004-05. Changes to the reimbursement of concessionary fares have also caused problems for operators.

Integrating transport needs with other local policies and priorities

3.22 The Department's delivery plan acknowledges the role that integrated land use and transport policies have to make in helping to achieve the target (Figure 7) and the Department has encouraged local authorities to commit to pursuing an integrated approach in their Local Transport Plans. At our workshops and in our case study visits to local authorities and our wider consultation, bus operators highlighted the importance of locating new housing, retail or industrial developments where they can be effectively served by public transport, introducing bus priority measures, and managing the availability and cost of car parking. Our case study work in York demonstrated that unitary authorities, who have responsibility for all issues at a local level, are well placed to make the most of the synergies available to them (**Box 2**). But policy integration across land use, demand management, pricing and other factors necessary to increase bus use was often weak in other areas outside London.

BOX 2

York City Council has made considerable effort to integrate its transport policies with its other policies

- Consistent land use planning and transport policies over many years, with commitment through successive administrations to increasing bus use and controlling traffic growth
- Good partnership working, involving bus operators and local authority, including regular discussions, addressing for example the need for new services and the relationship between parking charges and bus fares
- Significant investment by the major bus operator and local authority
- Integration of Park and Ride with local bus services
- Co-ordination of car parking charges with Park and Ride fares
- Restraint on city centre parking (public and private)
- Planning decisions based on sustainability appraisal, including bus accessibility
- Some bus priority
- Enhanced concessionary fares scheme with high take-up

Source: National Audit Office/Audit Commission

some had not established any. We found that a mature and stable local bus network helped in establishing partnership working and that, conversely, transport authorities in some areas found it difficult to introduce partnership where operators were competing head-to-head on routes, where authorities did not work effectively with each other or where operators' local management did not give priority to working in partnership (**Box 3** and **Box 4**).

BOX 3

Conditions that are favourable to partnership working

- Mature and stable local bus network
- Commitment and leadership by local politicians
- Established trust and working relations between local authority and major operators
- Sharing of information and plans
- Prospects for market stability and growth, with local authority commitment to retain its parking and bus priority policies and to integrate transport requirements in land use policies supporting new housing, retail and other industrial developments

Source: National Audit Office/Audit Commission

Establishing strong partnerships with operators

3.23 Most authorities consider they do not have the capacity to take on a comprehensive responsibility for bus services in the way that Transport for London does, but they can achieve substantial improvements through partnership working with operators. Many of the transport authorities responding to our questionnaire survey had established a strategic partnership or forum for operators across the authority area, and had established partnerships with individual operators on commercial corridors or routes. They considered these partnerships had supported joint commitment to raising the quality of the bus service, brought increased operator and authority investment in the bus services and related infrastructure, such as the introduction of CCTV on buses and smartcard payment system, and in some cases had enabled the provision of services which would not otherwise have been commercial. But they had not achieved partnerships across all routes and

BOX 4

Successful partnership working – Brighton and Hove Bus and Coach Company and Brighton and Hove City Council

- Commitment to locality and local bus services by the major commercial operator
- Mature partnership, established 1997, involving operators and local authority
- Innovation by operator – flat fares policy, buses equipped with visual information on the next stop, promotion of buses
- Support from local authority – bus priority and planning policies, real time information at bus stops (using Global Positioning System (GPS) technology)
- Sticking with tough decisions, such as bus priority schemes

Source: National Audit Office/Audit Commission

Using Quality Contracts to deliver local bus strategies

3.24 By September 2005 no authority had applied to the Department under the Transport Act 2000 for approval to use Quality Contracts to deliver its local transport strategies. In London, control over bus services, similar to that which can be achieved under Quality Contracts, was deemed by Transport for London to be important for the introduction of the London congestion charge and improvement of bus services as well as providing significant additional subsidy for the services. In its 2004 White Paper, *The Future of Transport*, the Department highlighted the potential use of Quality Contracts where necessary to achieve improved services. The Department subsequently produced guidance in 2005 clarifying that local authorities might have a case to establish Quality Contracts where these are needed to implement wider transport plans, such as the introduction of congestion charging or new integrated transport systems. Secondary legislation in 2005 also reduced the period of time between an authority developing a Quality Contract scheme and implementing it, with a view to addressing what was seen as an obstacle to the introduction of a Quality Contract.

3.25 The Passenger Transport Executive Group told us that Quality Contracts would enable their authorities to plan and develop their bus networks in a way not possible in the existing market, in which the majority of services are provided commercially. They considered that authorities' procurement of supported services to complement commercial services was currently inefficient and that Quality Contracts would enable greater efficiency through procurement of large service contracts across their local authority areas in part or in whole. But they considered that the hurdle to the take-up of the power to use Quality Contracts – the statutory requirement that they should be the only practicable way to deliver local strategy – remains too high.

Adopting a strategic approach to the procurement of supported bus services

3.26 Authorities' local transport administration costs are not high. Individual authorities responding to our survey had staffing for the procurement of bus services which ranged from less than one person in a small unitary authority to ten in a Passenger Transport Executive. From our survey and subsequent follow-up work we found that there was scope for authorities to achieve better value from their supported services at the same time as reducing their administration costs.

3.27 We found potential to achieve savings from reduced subsidy per passenger journey. Our survey found a wide range in local authorities' subsidy cost per passenger journey on subsidised local bus services – between unitary authorities, from 50 pence per passenger journey to £3.20, and also between counties, from 85 pence per mile to £1.61. Subsidy costs also range significantly within authorities by route, with some routes scarcely requiring subsidy to subsidy of up to £53.34 per passenger journey at the other extreme. Variations will reflect differences in the routes authorities have decided to subsidise, and their use, and the quality of the service provided, as well as authorities' ability to obtain a good price from operators.

3.28 The Department has encouraged authorities to achieve efficiencies from their expenditure on bus services, to contribute to the efficiency savings they are expected to make in response to the Gershon Efficiency Review (paragraph 6). In February 2005, the Department published and promoted updated guidance for local authorities in the *Bus Tendering Good Practice Guide*, recommending that authorities establish their own criteria for determining whether a bus service should be considered for support. The Guide encourages authorities to consider smarter packaging of routes for tender, and provides advice on assessing the costs, benefits and risks of different contract types and lengths. The Centres of Excellence announced in 2005 include six authorities which are specifically tasked with spreading good practice on efficient delivery.

3.29 Fewer than half of the transport authorities responding to our survey in March 2005 had undertaken a fundamental review of their processes for tendering for local bus services since 2000. Those that had reviewed their approach reported to us that they had achieved reduced subsidy costs per mile and savings in administration costs. In further work we confirmed that savings in subsidy costs in these authorities show how other authorities should be able to achieve savings to their tendering processes whilst retaining genuine competition, in particular through:

- economies of scale from tendering for more routes at a time and tendering for school transport and social services transport at the same time as for public bus services. For example Portsmouth, Luton and Durham had achieved savings from tendering all routes in their area at one time, or in more substantial packages of routes, for example worth at least £500,000 a year, rather than tendering fewer routes as and when they fell due or administrative resources allowed, with tenders sometimes worth

as little as £30,000 a year. This approach allows the strategic review of services across a number of routes to identify improvements to the network and enables operators to put in better value bids, reflecting improved scheduling of their staff and buses and the savings they make from needing to respond to fewer tenders;

- awarding longer-term contracts, for five years as opposed to the two, three or four-year contracts which are used in some authorities. Longer contracts allow operators to offer lower prices reflecting the additional security of the business to them; and
- achieving savings on administrative costs, from both holding fewer tenders and using longer term contracts. Durham and Portsmouth, respectively, had staffing levels a third and a sixth of the levels in other authorities, although they did use additional resources in the year in which they tendered for services. The Passenger Transport Executive Group told us that they are looking at the possibility of using e procurement to achieve savings.

We estimate that if authorities currently tendering for individual routes or small packages of routes adopted a more strategic approach to tendering, moved to longer contracts and reduced their administrative costs they could achieve average savings equivalent to some 10 per cent of their support for operators, amounting to some £26 million a year based on levels of support provided in 2002-03. Such efficiency savings could release cash or help authorities to meet cost increases, for example from rising fuel prices.

3.30 Authorities have worked together to deliver specific projects, but have not generally worked together to identify scope for more effective tendering for services or economies of scale in capital spending, such as road maintenance services or routine procurement of bus-related infrastructure such as bus shelters. And in response to our survey authorities' reported expenditure on routine items ranging widely – for example from £2,200 to £8,500 for a bus shelter; and from £21 to £400 for a bus stop pole. Variation in the items purchased might reflect local decisions on quality or support local branding of services. However, less variation could enable economies of scale and improvements in quality. The Passenger Transport Executive Group told us they were examining the scope to achieve efficiency savings, for example working together to develop and test an innovative design for bus-stop poles.

Efficient administration of concessionary fares

3.31 In England there are a wide variety of concessionary fares schemes operating within individual districts, across a county or across a metropolitan area. Local authorities use their discretion to add to the national minimum concession, for example by: providing concessionary fares into neighbouring areas, or during peak hours; providing concessions to additional groups of people such as children; or providing tokens, which can be used on other forms of transport. In the 2005 Budget, the government announced that the minimum concessionary fare for people over 60 years or with disabilities would increase from a half fare to free fares from April 2006. This policy change has been proposed without further change to the local arrangements for administering the concession. To implement it, District Councils (and County Councils where they undertake this function on behalf of their districts) and Passenger Transport Authorities will need to consider how this will affect local enhancements. They will also need to negotiate new reimbursement agreements with the bus operators in their area.

3.32 The Department estimates that the complexity of the arrangements in England brings authorities' total costs for administering the scheme to some £16 million (equivalent to around five per cent of spending on concessionary fares), compared with an estimated cost of £0.5 million in 2004 for the national administration of the Bus Service Operators Grant (equivalent to less than 0.2 per cent of expenditure on these grants). Operators will also bear considerable costs from separately negotiating reimbursement reflecting their fare levels and passenger numbers with the authorities in each area in which they operate.

3.33 By comparison, the Welsh Assembly Government, in consultation with the 22 local (unitary) authorities and operators in Wales, introduced a national scheme in 2002, permitting free travel on local bus services throughout Wales. Local authorities reimburse operators, using a new standard formula negotiated centrally which can be varied locally if local circumstances require it. Bus passes are still issued by the local authorities, using a new standard design, so that they can be easily recognised throughout Wales. Scotland has had a national minimum of free local travel since 2002, with local reimbursement of operators. With effect from 2006, there will be central administration of a new statutory national concessionary bus scheme supporting travel across Scotland. This will be provided through a smart-card giving older people and people with disabilities entitlement to a range of public services.

In Wales and Scotland, the national arrangements have been introduced to complement changes to the concessionary fares entitlement, but have demonstrated that standardisation or central administration can be achieved. Because of the number of changes to the schemes in Wales and Scotland, neither has been able to isolate the changes in administrative cost and increase in passenger numbers solely relating to the move to national concessionary fares and reimbursement of operators.

3.34 Primary legislation would be required to introduce a national scheme in England, unless it could be achieved through voluntary agreement, as it was in Wales. But, if the complexities of negotiations with operators and differences between local schemes were removed, for example by introducing national negotiation and administration of reimbursement of operators, and costs were brought into line with those in London, some £12 million of the current £16 million in negotiating and administering the scheme outside London could be saved.

3.35 In Wales and Scotland the concessionary fares schemes have changed to allow national free travel, alongside the introduction of national negotiation of reimbursement rates. At the time of the Budget 2005, the Department for Transport estimated that extending the scheme to include entitlement to travel throughout England could add a further £100 million to its total cost. The Department considers that local authorities' discretion to add to the minimum concessionary fares entitlement, together with variations in local fare levels and passenger numbers, make it difficult to develop a robust national reimbursement formula. It has provided guidance on its website to explain the national minimum standard for concessionary fares, how local authorities may add to the minimum and where District Councils may wish to work together to run joint schemes, for example through their County Councils. It has also provided local authorities with a toolkit for calculating their level of reimbursement of operators, to help them achieve savings from their administration of the scheme.

Effective regulation of, and accountability for, bus services

3.36 Outside London, the independent statutory Traffic Commissioners are responsible for monitoring that operators comply with their operator's licence, which requires operators to maintain their vehicles to an appropriate standard, satisfy financial requirements and be of "good repute". The Traffic Commissioners also monitor operators' provision of bus services to their registered timetables. As the market is competitive, the Traffic Commissioners are not responsible for regulating other aspects of concern to bus users or the quality of buses and bus infrastructure (**Box 5 and Box 6**). The Office of Fair Trading can investigate complaints of restrictive practices resulting in monopoly pricing. Satisfaction with bus services has been reasonably high and has improved in recent years (Figure 9), however, suggesting that there is not a case for greater regulatory intervention by the Traffic Commissioners.

BOX 5

Problems for bus passengers

- Delays and unreliable services
- Uncertainty about services due to changes to schedules or withdrawn services
- Lack of information (before and sometimes during the journey)
- Inadequate basic infrastructure, such as shelters at bus stops
- Buses of poor quality or inaccessible to passengers with disabilities
- Expensive bus fares

Source: Bus Users UK

BOX 6

Bus stop facilities in a shire county in England

Percentage of bus stops with:

| | |
|------------------------------|----|
| ■ shelters | 23 |
| ■ timetable cases | 31 |
| ■ poles | 48 |
| ■ flags (bus stop signs) | 60 |
| ■ street lighting within 20m | 81 |

Source: Audit Commission, 2004

3.37 The Traffic Commissioners do not routinely receive management information on bus service reliability and have limited resources to monitor operators' performance.

- Operators are not required to provide information routinely on bus service performance to the Traffic Commissioners, or to the public. And there is no requirement for operators to collect reliability information locally, using the reliability attribution approach used in national reliability statistics – that is showing the extent to which scheduled bus miles were lost due to traffic congestion, staffing problems, mechanical problems or other factors outside the operators' control.
- Local authorities may receive information from operators, but are reluctant to share information with, or pass on complaints to, the Traffic Commissioners. Authorities may receive performance information from operators, through their partnership working, and operators may stipulate that the information should not be passed to the Traffic Commissioner. Authorities may also generate information themselves through their electronic traffic management systems. Authorities we visited were concerned that such sharing of information might damage their partnership with operators.
- Passenger complaints are the Commissioners' principle source of information on poor services, although passengers might not be aware of this formal route for complaints given the complexity of the delivery chain and the low public profile of the Traffic Commissioners.

3.38 The Traffic Commissioners rely on ten inspectors, across England, to investigate bus users' complaints through on-site monitoring of performance and seeking responses from operators, and to collect sufficient evidence to hold operators to account, at a public inquiry if necessary. In the absence of performance management information, the Traffic Commissioners are ill-equipped to target their enforcement effort where it is most needed, as recommended by the Hampton review.³⁶

3.39 In 2005 the Traffic Commissioners established revised standards for reliability and punctuality, with the expectation that this would require operators to establish more realistic timetables for services, taking account of the level of congestion. The Commissioners agreed that, if operators were working with authorities to monitor and address punctuality in a Punctuality Improvement Partnership, this would be taken into account in the event of a regulatory review of their performance.

3.40 The Traffic Commissioners can levy financial penalties on operators or put restrictions on operators' licences, but these outcomes can be a blunt tool and can result in the removal of a service or in services becoming un-commercial. Although passengers have consistently rated reliability of service at between 60 and 70 per cent, over recent years the Traffic Commissioners have held few public inquiries into the performance of local bus service operators in England – 38 in 2003-04, while there is a total of 18,776 routes registered by operators. The majority of public inquiries resulted in the Commissioners taking action against the operators, with 58 per cent of public inquiries in 2003-04 resulting in financial penalties being imposed.

3.41 Despite the considerable sums of public money which flow to the bus industry (paragraph 6), operators are not directly accountable to local people for the public service they provide. This is in contrast to the arrangements for rail services, which operate under the different government policy of provision through franchise agreements. Train Operating Companies can be required within their franchises to operate to certain standards. Information on train punctuality and reliability and passenger satisfaction are routinely reported by Train Operating Companies to provide accountability to passengers and the taxpayer. And Train Operating Companies make compensation payments to passengers for delayed services. If the Traffic Commissioners had routine access to information on bus service performance they could use this to publish information on operators' performance, encouraging improvement in performance and making the market more effective by making performance information more readily available and transparent to local communities.

36 *Reducing administrative burdens: effective inspection and enforcement*, produced for HM Treasury by Philip Hampton March 2005.

APPENDIX

Methods

Process mapping of the delivery chains for bus services in London and outside London

We held workshops in December 2004 and January 2005 attended by representatives of all of the key players in the delivery chain to map out the delivery chains for bus services in London and elsewhere in England. We mapped respective key roles, powers and responsibilities along the chain, working relationships between organisations, funding streams, information flows and accountability arrangements. The organisations represented at the workshops were:

Workshop for London

Department for Transport
 London Borough of Kingston upon Thames
 Government Office for London
 London Borough of Lambeth
 Transport for London
 Go Ahead
 Westminster City Council
 Stagecoach
 Arriva
 Senior Traffic Commissioner

Workshop for outside London

Department for Transport
 Leicester City Council
 Government Office for the North West
 Manchester City Council
 Government Office for the South West
 Cambridgeshire County Council
 Senior Traffic Commissioner
 Basildon District Council
 Nexus
 Stagecoach
 First

Critical evaluation of the delivery chain

At the workshops attended by representatives of all of the key players in the delivery chain, we critiqued the delivery chains for buses, and supplemented our analysis with subsequent interviews with key stakeholders, case studies at a selection of local authorities, a survey of authorities and examination of key documents.

Documentary and data analysis

We reviewed key departmental documents, including the various iterations of the Department's delivery plan, and analysed and interpreted bus service performance data and reviewed the Department's analysis of local authorities' targets for bus usage. We also drew on recent work by the NAO examining the systems that provide the data for reporting against the PSA target as National Statistics.

Stakeholder consultation

In February 2005, we consulted and received detailed responses from the following organisations:

- Association of Transport Co-ordinating Officers
- Bus Users UK
- Commission for Integrated Transport
- Confederation of Passenger Transport
- Countryside Agency
- Passenger Transport Executive Group.

Central government consultation

Throughout the study, we consulted the Department for Transport. We also interviewed officials at the Office of Fair Trading (OFT) about the operation of the Competition Act in the bus industry.

Case Studies

In February and March 2005, we carried out five full case study reviews in the following local authority areas and visited two further local authorities to supplement our findings in some key areas:

- **London.** We interviewed staff at Transport for London and reviewed their records, and we interviewed staff at Croydon, Wandsworth, and Westminster Borough councils.
- **Merseyside.** We interviewed staff at Merseytravel (Merseyside Passenger Transport Executive) and reviewed their documents and we interviewed staff at Liverpool City Council. We also met the bus operator Arriva North West.
- **Essex.** We interviewed staff at Essex County Council and reviewed their documents and we interviewed staff at Colchester Borough Council and Tendring District Council and the Government Office for the East of England. We also discussed local services with bus operators, First and Nelsons.
- **Northamptonshire.** We interviewed staff at Northamptonshire County Council and reviewed their documents and we interviewed staff at Northampton Borough Council and South District Northamptonshire Council. We discussed local services with bus operators Stagecoach, MK Metro and Geoff Amos Coaches Ltd.
- **York.** We interviewed staff at York City Council and reviewed their documents. We discussed local services with bus operators Arriva Yorkshire North and Top Line Travel of York Ltd.
- **Brighton.** We discussed partnership working with Brighton and Hove Bus and Coach Company and Brighton and Hove City Council.
- **Leicestershire.** We discussed with Leicestershire County Council its review of bus services in the county.

Questionnaire survey and follow-up case studies of local authorities to benchmark performance and practices

In March 2005 we sent a questionnaire to a selection of district, unitary and county councils and all passenger transport executives in England, based on a stratified sample of the different types of authority in England, as a means of supplementing our workshop and case study work. We received responses from 14 district councils, 21 unitary councils, 14 county councils and two passenger transport executives.

We followed up the survey responses we received from four unitary authorities and one county council, where they reported that they had undertaken a fundamental review of their processes for tendering socially necessary bus services (Brighton and Hove, Luton, Portsmouth, Stoke-on-Trent and Durham). We held meetings and reviewed papers to identify what had prompted their reviews, how they had carried out their reviews and what outcomes they had achieved from their reviews.

Expert panel

We consulted with a local transport expert and an expert in central government efficiency throughout the course of the study.

We were assisted throughout our work by PricewaterhouseCoopers.

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