



National Audit Office



Delivery Chain Analysis for Bus Services in England

LONDON: The Stationery Office
£10.75

Ordered by the
House of Commons
to be printed on 5 December 2005

EXECUTIVE SUMMARY



1 In its *10 Year Plan for Transport in 2000*², 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.

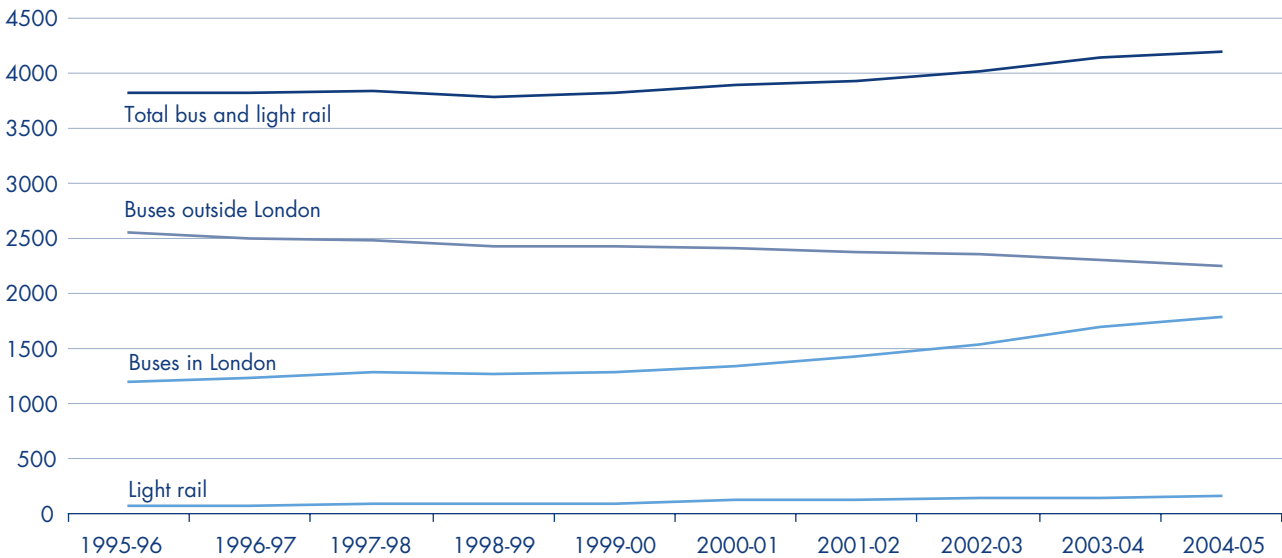
4 The government sets overall policy on bus services, including the regulatory framework, and provides some funding (**Figure 2 on page 12**). The Transport Act 1985 provided for private sector bus operators to deliver services, on the grounds that commercial incentives would achieve efficient services 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.

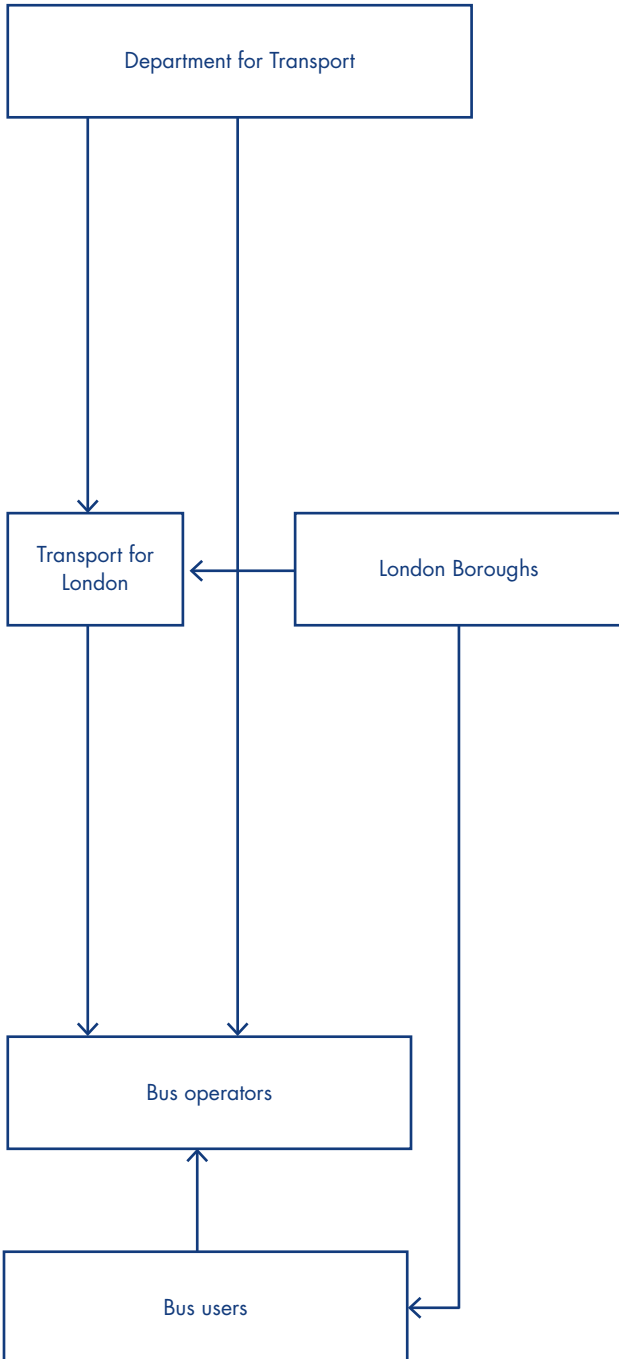
⁵ Local transport authorities produce five-year Local Transport Plans, including separate but linked Bus Strategies and Information Strategies, setting out their transport strategy and five-year programme for capital investment and the level of capital funding from government required to deliver the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

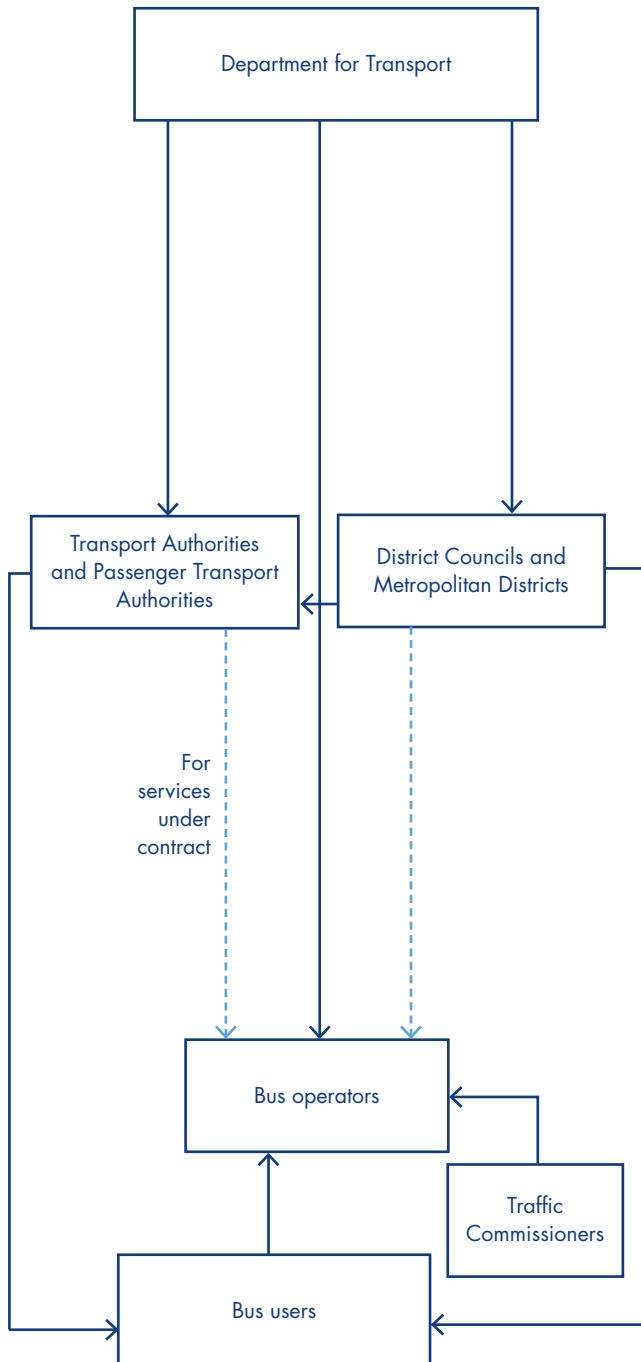
- provide bus services paid for by TfL under contracts and report on their performance to TfL; and
- collect fares and pass to TfL.

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.

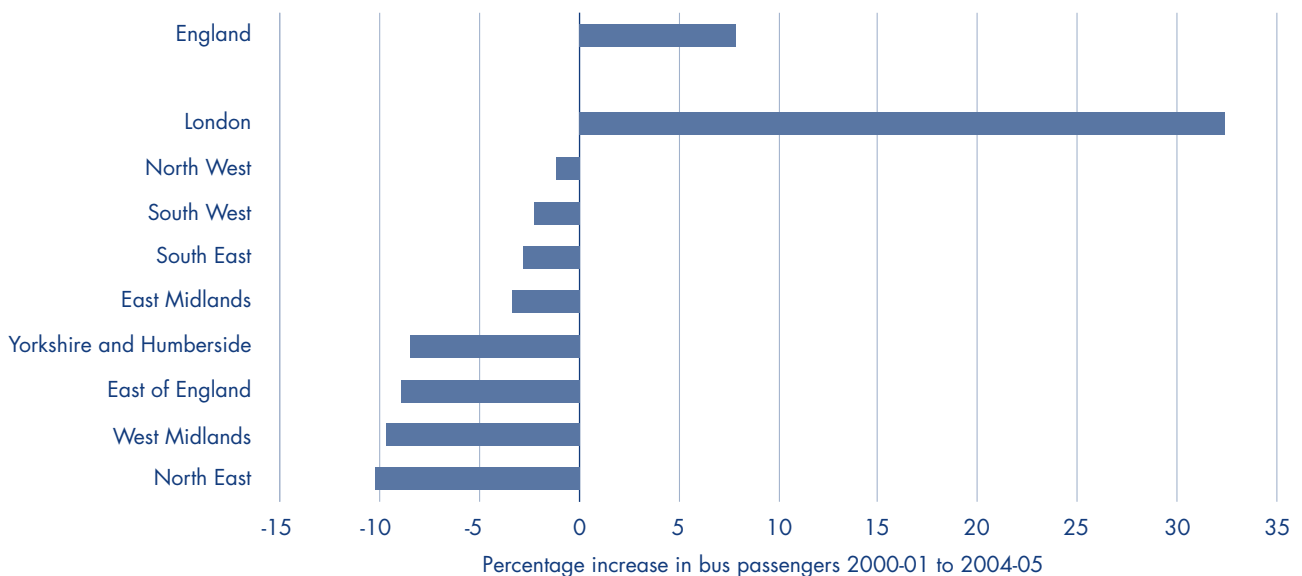
16 Since 2000, there has been a reported growth in bus and light rail use in England of nearly eight per cent, reversing a long term decline. In places such as York and Brighton, increasing numbers of people have

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.