



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Transport

Improving local bus services in England outside London

Key facts

£512m

annual government revenue funding (2018-19) for buses in England outside London excluding cost of free travel primarily for older and disabled people

5.8m

bus passenger journeys per day on average in England outside London in 2018-19

£5bn

new five-year government funding package announced for buses, walking and cycling in England outside London over current Parliament

- 10%** overall decline in bus use between 2010-11 and 2018-19
- 38%** reduction in local authorities' financial support for bus services between 2010-11 and 2018-19
- 112 million** vehicle miles travelled on local authority supported service routes in 2018-19, down from 243 million in 2010-11
- 18%** fare increase in real terms between 2010-11 and 2018-19
- 24%** of bus operators' revenue income in 2018-19 from the provision of bus services, net of concessions, comes from government subsidy and support, though the exact percentage will vary by operator
- £1.80 to £5.10** average benefits (per programme evaluated) for every £1 spent on supporting local bus services – assessed by the Department for Transport in 2016
- £220 million** new funding announced to support bus services in 2020-21, some of which was repurposed to support existing services during the COVID-19 crisis

Summary

Introduction

1 In 2019, buses accounted for 56% of public transport journeys by those living in England outside London, or an average 5.8 million passenger journeys each day. Despite a long-term shift to private car use, buses still support millions of essential daily trips, and for many people provide the only practical, frequently used method of transport, other than walking. Bus use is particularly common for people aged from 17 to 20 and over 70, and for women and girls, most ethnic minority groups, and people on lower incomes. Reliable, affordable bus services contribute to achieving the policy objectives of two thirds of government departments, from reducing health inequalities to access to justice.

2 Since government deregulated the local bus market in 1986, the majority of local bus journeys (87% by mileage in 2018-19) are on commercial services. Private sector operators decide bus routes and frequencies and invest in new vehicles and routes according to commercial considerations. However, public money has always supported bus services:

- Local authorities may choose to tender for additional supported services, which are those they consider necessary but are not otherwise commercially viable; they support these services from their general revenue funding from the Ministry of Housing, Communities & Local Government (MHCLG).
- At national level, the Department for Transport (the Department) pays a subsidy to help operators provide affordable services where they might not otherwise be viable.

From 1997-98 to 2010-11 the net total of national subsidy and local revenue support for bus increased in real terms, but fell thereafter, in line with spending on other local services. Around 24% of bus operators' income from bus services currently comes from public subsidy and support (£512 million in 2018-19). The exact percentage will vary by operator.

3 The Department is responsible for the bus policy framework, ad hoc capital funding to local authorities and operators, and legislation. It provides information to support MHCLG, in determining the overall funding for local government. Over more than 30 years, the Department has stated an aim to increase bus use and halt the decline that has continued since the 1950s. In some periods this has been expressed as a formal Departmental objective, although not currently.

4 The Department considers that good quality bus services are vital for local economies, can help ease congestion, and support better connected communities. It also sees an important role for buses in addressing air quality issues and reducing greenhouse gas emissions. In September 2019 the Department announced that it would develop the first national strategy for bus services across England and a long-term funding commitment.¹ In February 2020, it announced a £5 billion new funding package for buses, cycling and walking over this Parliament.

Scope of this report

5 The National Audit Office (NAO) and the House of Commons' Committee of Public Accounts (the Committee) last examined bus services in 2005 and 2006 respectively. This report examines the effectiveness of government's support for buses, and the extent to which the enablers are in place for local authorities and operators to realise the long-term, sustained improvement that the Department now intends. The report:

- explains what the data show on bus use, provision and performance over time and across local authorities in England. It also sets out roles, responsibilities and accountabilities for delivering and improving bus services (Part One);
- examines the effectiveness of the revenue funding framework for buses (Part Two);
- examines the effectiveness of government's current approach to improving bus services (Part Three); and
- assesses the issues government needs to address to achieve its aims for the future of buses in England (Part Four).

6 During fieldwork for this study, the COVID-19 crisis led to drastic reductions in bus travel across the country; potential serious health and financial consequences for passengers, staff, operators and local authorities; and rapid financial and regulatory intervention by the Department. Also, progress has been delayed on the strategy, long-term funding package and initial pilot schemes. We do not examine the value for money of the Department's emergency interventions during the crisis. Although the issues we highlight pre-date the pandemic, we consider they remain and have been brought into sharper relief by its effects.

¹ Department for Transport, *A better deal for bus users*, first published 30 September 2019, updated 6 February 2020.

7 This report does not examine voluntary and community transport providers. Our examination excludes bus services in London, where the delivery model is different from the rest of England, although we draw on comparisons with London where useful. With a focus on funding arrangements and service delivery, we have not examined specific capital funding and improvements to infrastructure or vehicles. Most of our analysis uses data between 2010-11 and 2018-19 because the Department collected data on a different basis prior to 2010-11, but we have used longer-term data to reflect longer-term trends. Our evaluative criteria and methods are at Appendices One and Two.

Key findings

Bus use, provision and performance, 2010-11 to 2018-19

8 **Despite the Department's aim to increase bus use, over this period passenger journeys fell in 65 of 88 English local transport authorities outside London, and by almost 10% overall.**² This continued the gradual decline since before deregulation. By comparison, since deregulation London experienced an 89% increase, following the introduction of additional services and the congestion charge, although this has declined more recently. Average bus journeys per person per year outside London vary widely: from less than 10 in some counties and more rural areas, to around 150 in some more densely populated areas including Nottingham, and Brighton and Hove. The local authorities which include large metropolitan areas account for more than 40% of all passenger journeys outside London, but they have also seen the greatest percentage falls in average journeys per person (paragraphs 1.4, 1.11 and 1.12, and Figures 7 and 8).³

9 **The decline in bus routes and bus travel disproportionately impacted supported routes, which are important for more rural or disadvantaged users.** During this time, travel on supported services fell faster than on commercial services, with the total distance travelled on supported services falling by more than half. The Campaign for Better Transport estimated that since 2010-11 some 3,000 bus routes have been reduced, altered or withdrawn and these routes are more likely to have been supported services. The Department's analysis shows that supported services can deliver high levels of socio-economic benefit, but it does not have information to understand how many people and who are being affected by route closures (paragraphs 1.10, 2.10 and 2.12).

² There are 88 local transport authorities, excluding London, as metropolitan combined authorities are treated as one local authority.

³ The six metropolitan combined authorities are: Greater Manchester; Merseyside; South Yorkshire; Tyne & Wear; West Midlands; and West Yorkshire. Tees Valley combined authority is not classified as a metropolitan authority but includes five large towns and has also seen one of the largest falls in bus journeys per person.

10 Some local authorities, where there is long-term local support for prioritising bus services and tackling congestion, have improved and sustained bus use. There is good evidence on what works in improving and increasing commercially viable bus services: long-term locally led interventions with wide support, particularly those which target congestion, improving bus speed and reliability. This reduces the need for local authority support, freeing up funding for further improvements or other purposes. Urban areas including Nottingham City and the West Midlands have made progress with bus priority lanes. In Bristol, following partnership working between local operators, local authorities and the Department, passenger journeys increased by 36%, to 92 journeys per person per year. In rural areas, sustaining commercial routes is more difficult. On-demand services have had some success in a limited number of areas, for example Lincolnshire (paragraphs 1.13, 3.2 to 3.4, Figures 13 and 14 and Appendix Three).

Revenue subsidy and support for bus services, 2010-11 to 2018-19

11 The Department's subsidy keeps routes financially viable and is important to operators but needs reforming to provide greater incentives for improvement.

Increasing congestion means operators need to put on more buses to maintain frequency, which, when combined with falls in paying passengers, puts pressure on operator profit. The Department's most recent estimate of median operator profitability is 8.5% (2017-18), at the lower end of what the Competition Commission estimated was desirable. Between 2010-11 and 2018-19, as fare-paying passenger journeys fell almost 6% (net of concessions journeys), total estimated operator revenue fell by 11%, while average bus fares increased by 18% in real terms. The Department's subsidy (Bus Service Operators Grant) aims to keep services affordable and allow operators to run services that might otherwise be cancelled. However, the Department recognises that it is outdated and could be reformed to incentivise improvements more effectively and has committed to do so. In 2018-19, the subsidy was £248 million, 31% less than in 2010-11, mainly because the Department had reduced the rate of payments and miles travelled were lower (paragraphs 2.2 to 2.9, and Figures 9 to 11).

12 Local authorities' have significantly reduced support for bus services, while the cost of statutory concessions has fallen more slowly.

Of 85 local authorities operational over the whole period we examined, 72 have reduced spending on supported services. Of these, 42 reduced funding by more than 50%. The total real-terms fall from £425 million in 2010-11 to £264 million in 2018-19 (38%) is similar to reductions in local government spending on other non-statutory services. While not part of bus subsidy and support, the statutory duty to reimburse operators for free travel by eligible older and disabled people cost local authorities more than £650 million in 2018-19 and now forms a larger proportion of the total that local authorities spend in relation to bus travel. Authorities report that this duty, which is akin to a locally delivered national benefit, adds to pressure on non-ringfenced funding (paragraphs 2.10 to 2.11, 2.16 to 2.17 and Figures 11 and 12).

Effectiveness of government's interventions

13 New powers for local authorities to take greater control over bus services have made little difference against a background of wider funding pressures.

Deregulation shifted control over bus routes and passenger fares from local authorities to bus operators running commercial routes. Over time, the Department has tried to give a degree of control back to local authorities, by allowing various types of formal local partnerships with operators. The 2017 Bus Services Act allowed new models of partnership working and gave certain larger authorities the power to take control of services under a franchising arrangement. However, local authorities' reduced spend on local transport, down by around 40% in real terms since 2010-11, is likely to have led to reductions in experienced transport planning staff to work in partnership with local operators. There are some long-standing, effective partnerships, but it took until April 2020 for the first, and so far only, new-style partnership to be agreed. No franchising proposals have progressed beyond consultation (paragraphs 1.9, 2.10, 3.5 to 3.9, 4.3 and Figures 6, 7 and 15).

14 The Department uses capital funding to support bus improvement, but is concerned that not all local authorities are able to access it.

The Department provides a range of capital funding pots for which local authorities and operators can bid which can be useful in kick-starting bus improvement. The Department's evaluations of bus improvement schemes it funded suggest positive benefit-cost ratios, ranging from £1.80 to more than £5.10 on average (per programme evaluated) for each £1 of investment, not including wider impacts. In the longer term, these capital projects can address congestion or reduce emissions, alongside contributing to reducing operators' costs. The funds have ranged in size from £7 million to £2.5 billion and include the Local Sustainable Transport Fund and Transforming Cities Fund. However, the Department is concerned that local authorities with potentially viable projects are not accessing capital funding, because they lack the capability or revenue funding to bid (paragraphs 3.12 to 3.16).

15 It is too early to say whether new regulations requiring transparent data on fares and routes will increase demand.

From December 2020, the Department has introduced regulations requiring operators to improve public data on fares and routes – outside London, many timetables and fares are still only available at bus stops or on the bus. Research, including from statutory consumer watchdog Transport Focus, suggests that better passenger information could encourage non-users to try the bus, especially younger people (paragraphs 1.6, 3.10 and 3.11, Figure 17).

Accountability for improving bus services

16 By choosing to deliver bus services through a deregulated model, the Department has limited its ability to influence improvement. This model involves local operator markets and few contractual relationships. Operators are not accountable to the Department or local authorities for delivering commercial services. However, their incentive to invest in improving services and adding routes may be influenced by the level of support from the local authority and its approach to managing congestion. Local authorities are accountable to local people for ensuring that bus services meet their needs, often setting out goals in a Local Plan, although there are no related statutory duties and weak incentives to prioritise bus services given the context of wider funding pressures. When we reported in December 2018, only 44% of wider Local Plans were up to date, and 14% of authorities had no Plan at all.⁴ In line with the principles of localism, the Department does not directly influence how local authorities fund local transport (paragraphs 1.8 to 1.11, 2.13 to 2.15, 3.3, 3.10, 4.4 and Figures 6 and 9).

17 While the Department collects data on buses, it could do more to bring together data and a set of indicators to support its future strategy. The Department told us that, in line with wider Government policy, it has been mindful of the need to reduce reporting burdens on local authorities and has therefore taken a light-touch approach to gathering information on the financial sustainability of local bus services, given this is an area of devolved spending. During our work, which primarily took place before the COVID-19 crisis, we observed that while the Department collected a lot of data on buses, it did not routinely bring data together to monitor how government interventions impacted sustainability across the bus system. We do note some gaps in government's knowledge, for example on impact of reduced services on communities, particularly supported services. During the pandemic, the Department told us it has worked more closely with local authorities and operators to develop and use new and existing information to understand areas of critical need and target support. However, without clear objectives, it is difficult for the Department to know exactly what data it should collect. Also, if it does not identify a coherent, transparent set of indicators, it may find it difficult to monitor progress against its forthcoming strategy and make the decisions needed to stay on track (paragraphs 1.7 to 1.8, 2.12 to 2.14, 2.17 to 2.18, 3.9, 4.6 and Figures 6 and 17).

⁴ Comptroller and Auditor General, *Planning for new homes*, Session 2017–2019, HC 1923, National Audit Office, February 2019.

Opportunities and risks

18 Lack of coordination across government may limit the scale and pace of change. The Secretary of State for Transport has set out a long-term vision of shifting more journeys to public transport, as part of decarbonising transport. However, wider government decisions will affect people's willingness to shift to public transport. We have previously reported on how government's understanding of local service delivery and the interactions between service areas across different departments is weak. For example, planning guidance for new homes and public services does not need to consider and integrate bus services (paragraph 4.5, and Figure 16).

19 The COVID-19 pandemic, which has delayed the Department's strategy, presents both additional challenges and learning opportunities. Given the pandemic, the timetable for the strategy was extended and the Department now plans to publish it by the end of 2020. Also, the Department paused or redirected £70 million of the £220 million funding announced for buses in 2020-21 to emergency support, and allowed local authorities to use a further £30 million to ensure existing services could be safeguarded. The government has also needed to shift temporarily from its aim of increasing bus use, to advising people not to use the bus, except for essential travel. However, both local government and operators told us that rapidly coming together to identify and address emergency need had improved the effectiveness of working relationships (paragraphs 2.18, 4.1 and 4.2, and Figure 17).

Conclusion on value for money

20 Bus services have been declining across England for 70 years and the decline continued following deregulation, with only a few local authorities managing to buck the trend. However, government recognises that affordable bus services have public value, and funds around 24% of bus operators' revenue income. Government has chosen to deliver public bus services via a deregulated market model, and sensibly devolves decisions about supporting services to local authorities, who understand local needs.

21 The Department is not accountable for delivering bus services, but it has national policy responsibility. It is now preparing to commit significant new funding to bus services and to lead a national strategy for improvement against a background of considerable uncertainty. The Department collects data on buses and can show it has funded valuable improvements, but to date it has not sought to demonstrate how its actions have contributed to supporting optimal value for money across the bus system. If it is to work with and through others at central and local level, make informed choices about funding, and be able to adjust its plans to ensure it meets its objectives, it will need greater clarity on what it wants to achieve and how it will know when it has done so. During the COVID-19 pandemic, the Department has come together with local authorities and operators, intervening rapidly to target the weakest areas and keep buses running, which offers learning for the future.

Recommendations

22 Our experience of improvement strategies in other devolved, deregulated sectors shows that success requires whole-government commitment to long-term outcomes and locally led sustainable solutions. Of a number of issues this report highlights, we consider it most important that the Department should set out:

- a a clear, consistent vision of the future of bus travel, that encourages and supports local authorities to make long-term plans for their own local needs.** The Department should articulate clearly what success would look like for bus travel in urban and non-urban areas and how it expects new and existing models of delivery to feature. This vision should be consistent with its policy statements on future urban mobility and decarbonisation, and emerging long-term trends in travel;
- b a detailed, transparent delivery plan with clear objectives, responsibilities and accountabilities for the Department and others.** The Department's forthcoming National Bus Strategy and accompanying delivery plan should incorporate details of what it will do to lead and support change, what others in central government will do and what it expects local authorities and operators to do, alongside how they will be incentivised and made accountable for doing it;
- c good quality data and measures of success.** The Department should look widely at all its sources of performance information to develop a basket of measures granular enough to understand outcomes for users, local authorities and operators, so that it can baseline and monitor the system's progress, and adjust as necessary. This could build on the closer working with MHCLG, local authorities and operators during the pandemic, and include using the information created through the Bus Open Data programme;

- d an active role in supporting local authorities to access evidence and experience to support improvement.** The Department should work with MHCLG, local government, transport planning professional groups and operators to make it easy for local transport planners to share experience, resources, evidence and advice, and where necessary build local capacity to influence and improve bus services; and
- e the amount and form of funding, for both local authorities and operators, that is necessary to achieve the objectives of the bus strategy.** The Department has already committed to providing a long-term funding model. It should work with MHCLG, HM Treasury and local government as part of wider local government funding discussions, to ensure that the various elements of bus funding available combine effectively to support the objectives set out in the strategy. This should include: reform of the Bus Service Operators Grant to ensure incentives are aligned with government's objectives; and work to understand the actual costs to local authorities of funding statutory concessions and the effect on budgets for bus improvement. The overall revenue funding model should also be transparent enough to contribute to enhanced accountability for improving buses.