

Briefing: Threats to bus services and the bus service operators grant

What is happening?

The Government is reviewing the future of the only direct national funding for bus services – Bus Service Operators Grant (BSOG) – and may scrap it completely.

What is Bus Service Operators Grant?

Bus Service Operators Grant, formerly known as the Fuel Duty Rebate (FDR), is a rebate to bus operators on the fuel duty they pay.

Operators who run local registered bus services are reimbursed for the major part of the tax paid on the fuel used in operating these services. These also include many rural, school and socially important services and the grant is also increasingly important to community transport providers.

Government provides a fuel duty rebate on approximately 80% of the fuel used by buses. Bus operators pay fuel duty tax on the remaining 20% of their fuel. Currently BSOG is paid at a rate of 43.21 pence per litre for Ultra Low Sulphur diesel.

Why are buses and BSOG important?

Buses provide a low-cost, low-carbon transport link to employment, education, health, leisure and shopping. They are the most used form of public transport, with 5 billion passenger journeys a year, and are vital for the 25% of Britons who don't have a car. They are also most heavily used by the lowest income groups, households on incomes under £10,000 (Source: Passenger Focus/TAS, 2008) and those with disabilities who may not have the option of driving.

BSOG lowers the cost of providing services, resulting in lower fares, a more comprehensive network of services, less congestion on our roads and a better and healthier living environment in our communities. It also helps support the 170,000 jobs in the bus industry and thousands of others in bus manufacturing and support services.

Does BSOG support Government policies?

Yes. It helps the Government achieve its aims of carbon reduction, lower road congestion, and social inclusion. The Government has publicly recognised the value of BSOG. Transport Minister Norman Baker told the House of Commons on 29 June: "The benefits of that grant are clear: it ensures that the bus network remains as broad as possible, while keeping fares lower and bringing more people on to public transport, with the obvious benefits of reducing congestion, lowering carbon emissions and improving air quality in our towns and cities."

Is BSOG good value for money?

Yes. The Department for Transport's own submission to the review of the local bus market said that BSOG represents high value for money. A previous study for the Government by the Commission for Integrated Transport found that every £1 invested in BSOG provided between £3 and £5 of wider benefits.

Do buses get special treatment?

No – quite the reverse. Bus passengers, many of whom are on low incomes, pay more fuel tax than wealthier air and rail passengers. While buses still pay a significant amount of fuel tax, aviation pays none. BSOG is equivalent to a £437m a year investment in buses. In contrast, aviation gets a £6.5b a year tax break by paying no fuel duty (Source: Green Alliance, June 2009).

What would happen if the Government withdrew BSOG?

This would have damaging and wide-ranging consequences for local communities, public transport services, low-income groups, the UK economy and the environment.

1. Bus fares and services: ticket prices would likely rise by 10%, with a similar 10% cut in commercial bus services. The cuts would seriously affect both urban and rural areas and be most acute in rural areas and on lower-used evening and weekend services.
2. Bus operators: costs would rise by around 10%. Combined with running fewer services, this could lead to the loss of up to 10% of the people employed in the bus industry. Around a quarter of the industry is made up of independent and smaller operators, many of whom run rural and tendered services. Reduced investment would also result in drastic cuts to investment in new buses, with devastating consequences for UK manufacturers and suppliers. Bus operators would carry 10% less passengers for the same level of costs (excluding BSOG) and the same level of revenue as now
3. Local authorities: transport authorities and local councils, whose budgets have already been cut, would be unable to make up the funding shortfall. The withdrawal of BSOG would make it more expensive to support socially important bus services that provide vital links but carry small numbers of people. All local authority-subsidised services would become unprofitable, requiring either 10% more contract payment or service cuts. It would also push up the costs of running a significant number of school services, many of which are registered as local bus services and qualify for BSOG. All local authority-funded concession travel reimbursement would have to increase by 10% in line with fares. The cost of the Transport for London bus network would rise by a similar percentage and again, since no alternative funding is available, a combination of fares increases and service cuts would be inevitable in the capital
4. Government finances: savings on BSOG would be significantly eaten up by increases in the welfare budget through higher unemployment (including reducing the ability of those with disabilities to return to work), higher costs of supporting previously commercial bus services, and lower tax income from successful bus operators, manufacturers and suppliers
5. Communities: the sharp rise in the cost of bus travel and cuts in bus networks would result in a 10% drop in bus passengers. It would increase car use, worsen congestion, damage the environment and lead to higher costs for businesses

What can you do to save your local bus services?

Write to the Secretary of State for Transport Philip Hammond and Transport Minister Norman Baker to ask them to retain BSOG in the Department for Transport's submission to the Spending Review.

Support **Early Day Motion 402**, which warns of the risks of scrapping BSOG and the need to retain this crucial source of public investment in the most widely-used form of public transport.