



Department for Transport consultation 'Local Bus Service Support – Options for Reform'

Response from Campaign for Better Transport

General comments

The need for a wider consultation on transport subsidy, taxation and pricing

Campaign for Better Transport welcomes the Government's decision to look again at bus funding. The main reason given for reconsidering BSOG is the need for the subsidy regime to fit in with environmental, particularly climate change objectives. In the context of this wider agenda, it would be useful for the Government to consider how its subsidy, taxation and pricing of different transport modes help to meet its policy goal on climate change. Given the Government's plans for a 'Towards a Sustainable Transport System' white paper, a Climate Change Bill and a carbon reduction budget, the time is right for Government consultation on these issues.

This consultation might consider whether different modes of transport receive appropriate levels of funding and tax breaks, given their relative per capita carbon emissions. It would look at whether different modes of transport are taxed appropriately and whether these taxes provide the right incentives to encourage low carbon behaviour. The consultation could look at price signals given to users of different transport modes – public transport fares, air fares, motoring costs - and whether these are appropriate, given the relative carbon produced by each mode. 'Towards a Sustainable Transport System' command paper says that Government will use pricing to achieve its goals. However, there is currently no link between carbon and cost to the user of different transport modes, and so we would welcome explanation from Government on how such a link will be made. Finally, the consultation could consider increasing public support for low carbon policies by ringfencing green taxes such as (for example) fuel duty increases, to spend on public transport improvements. This should be looked at in the context of oil price forecasts, which we believe need to be reviewed.

This kind of consultation, alongside the other Government plans mentioned above, would provide a clearer idea of how carbon reductions would work in practice. The Department for Transport would be clearer about its own sectoral target, and how this would be achieved. There would also be more clarity about the role of bus funding (and BSOG in particular) in helping us move towards low carbon transport. If, for example, modal shift from car to bus is assumed to be a part of achieving carbon reductions from transport, bus funding and any new arrangements for BSOG will need to encourage modal shift as a primary objective. Government would also want to ensure that the price signals were right, so it would need to review bus funding in terms of its impact on bus fares.

Buses and climate change

We agree that the way in which BSOG is currently distributed is unhelpful in terms of encouraging bus operators to move towards lower carbon buses. If operators invest in fuel efficiency, the current system penalises them because they actually lose the overall amount of financial support they receive. The system does not provide incentives which would enable bus operators to invest in, for example, hybrid buses. Payback times are very long – it would take an operator around 14 years to get back the cost of buying a hybrid bus through reduced fuel consumption. This means that no operator will buy hybrid buses unless they are paid to do it. Changing BSOG could enable the Government to tackle this problem and provide

incentives for operators to go green. Campaign for Better Transport agrees that operators should be rewarded for investing in greater fuel efficiency.

At the same time, however, we would remind the Government that buses already make a very important contribution in terms of tackling carbon emissions from transport. Travelling by car produces up to three times as much carbon as travelling by bus. Buses are a key part of the public transport system that offers people an alternative to car use and car ownership. In our opinion, modal shift may well have greater long term potential to reduce carbon emissions than fuel efficiency. Therefore, it would be highly counterproductive if changes to BSOG led to further problems for the bus industry and resulted in bus cuts.

Buses have huge potential to help us reduce carbon emissions from transport by providing people with a lower carbon alternative to car use. Taking cars off the road also reduces congestion, which means less wasted fuel. In order for buses to fulfil their potential, Government needs to do everything it can to reverse the long term decline in bus use, and get people back on buses. That means building on what buses are already achieving in terms of tackling climate change, providing more funding so that they can go further.

Bus funding levels

Funding for buses in England and Wales remains low compared to that provided in other European countries. A recent CFIT study said that the UK continues to expect passengers to pay more of the cost of public transport services than other countries. <http://www.cfit.gov.uk/docs/2007/ebp/01.htm> While the Government suggests it spends almost £2.5 billion on buses every year, this includes large sums for concessionary fares and London's buses, which only benefit certain groups of bus passengers.

A recent CFIT study <http://www.cfit.gov.uk/docs/2008/cipto/pdf/cipto-report.pdf> concluded that rising costs in the bus industry will continue into the future, and that extra funding will be needed to maintain services at current levels. The bus industry is very fragile, and if Government values bus services, it will need to raise the level of support it provides, otherwise long term decline will continue.

There is also a lack of certainty about how much Government will spend in the future. This is unhelpful to bus operators and local authorities. Government should set out its plans for future funding levels for buses, so that others can also invest for the long term.

We suggest that bus funding (as well as taxation and pricing) should be thoroughly considered in the consultation suggested above. We would argue that levels of bus funding must be dramatically increased if buses are going to play their part in meeting the Government's goals. The Government could start to act on this by increasing the standard level of BSOG provided to 100%, and by increasing the Rural Bus Subsidy Grant.

The fuel duty rebate provided to bus operators is only 80%, not 100%. This level of reimbursement needs to be looked at and justified in any review of bus funding. In our opinion, increasing BSOG to 100% would be more appropriate given the need to encourage low carbon forms of public transport. This would shield bus operators from high oil prices, which would ensure that buses were not cut. Incentives for low carbon vehicles could be offered on top of the 100% rebate. The fact that a high proportion of bus users are from lower income groups strengthens the case for this.

The Rural Bus Subsidy Grant has been a huge success, and we would suggest that Government increases the pot of money available for this, perhaps by ringfencing fuel tax increases for this purpose. Many other European countries provide door-to-door public transport that achieves modal shift, even in remote rural areas. Government should consider setting minimum standards describing the bus services that should be provided for villages and towns, according to population. Meeting these standards will require substantially more funding for buses, but unless public transport is a real alternative, Government will not be able to achieve its objectives on climate change, congestion, social inclusion and quality of life.

Implications of the above for BSOG reform

It is unrealistic to expect that bus operators can use their profits to spend extra money on fuel efficiency. In reality, reforming BSOG to reward fuel efficiency and low carbon vehicles without increasing funding would force operators to choose between investment in new vehicles, and investment in other things like services improvements or staff. Additional pressure on costs without additional money will simply lead to tender price increases, fare increases and bus cuts, with passengers suffering as a result. Bus operators should be able to expect at least current levels of BSOG to be provided. One way to avoid adverse effects would be to pay 80% BSOG to bus operators as currently, but to pay 100% to operators who invest in low carbon vehicles. Campaign for Better Transport would not support any measure which results in less funding being provided, or even any measure which redistributes current levels of BSOG in a new way. It is our belief that the disruption to passenger services would not be worth the marginal benefits in terms of lowered emissions. If the choice is between more bus services in older buses, or fewer services in newer buses, we would choose the former.

Bus cuts are already happening all around the country, on an ongoing basis. Increases in fuel costs still hit bus operators, because BSOG only covers 80% of fuel costs. Increases in insurance costs and wages also affect the industry. Overall, bus use outside London is in long term decline – free travel for the over 60s and disabled has only temporarily halted this decline. This decline is made worse when bus companies are forced to increase fares and cut services.

Above all, it is vital that any change in BSOG should not result in further bus cuts. Bus cuts mean a reduction in people's travel choices, and often mean they are forced to drive. Every bus cut makes it harder for the Government to achieve modal shift from car to public transport. Bus cuts demonstrate that people have little choice, and are being pushed towards high carbon travel behaviour. Bus cuts are a huge problem in terms of tackling climate change.

Reallocating existing BSOG funding alone would cause more problems than it would solve. The only fair way to incentivise operators to grow the bus market and improve fuel efficiency is to provide additional funding that encourages lower carbon vehicles. Unless the overall amount of funding is increased, any change in BSOG will result in winners, losers and unintended consequences. If Government is not prepared to invest extra money in helping to move bus operators towards lower carbon buses, it should not reform BSOG at all. The small gains made would not make up for the loss of services and disruption that would be caused.

Proposals

Proposal 1: BSOG rate capped at a minimum fuel efficiency level

Campaign for Better Transport does not believe that Proposal 1 should be pursued. Above all, it would almost certainly result in an overall reduction in the level of BSOG being provided (see above). This would lead to bus cuts which are directly counter to the Government's climate change (and social inclusion) goals.

More generally, we think that focussing narrowly on fuel efficiency would provide inappropriate incentives to operators. It would encourage fuel efficiency measures that reduce service quality such as removing seats or swapping double decker buses for smaller vehicles. It would penalise operators for investing in accessible, low floor vehicles that comply with Disability Discrimination legislation. And it would encourage the use of fuel efficient vehicles, even when these have poor emissions standards.

In areas where local authorities had failed to act on congestion and bus priority, bus operators would receive less reimbursement because they would be less fuel efficient. This seems unfair, and it would lead to a worsening of bus services in an already congested area, due to the loss of funding.

Finally, this proposal could impact badly on small operators, and it would have a knock on effect on competition and passenger services if these operators were forced out of business.

Proposal 2: New arrangements for Low Carbon Buses (LCBs)

Campaign for Better Transport is generally supportive of Proposal 2, but we think there are some questions that need to be answered before this could be taken forward.

Our key concern is that the Government should consider providing capital grants to operators to invest in LCBs, rather than changing the payment of a revenue subsidy. This would be more straightforward and less disruptive than reforming BSOG. Our position is that unless the Government provides additional funding to enable bus operators to move towards lower carbon vehicles, there will be adverse effects. If Government forces operators to invest in LCBs or fuel efficiency, without increasing funding, this investment will simply come from money that would have been spent elsewhere. Bus cuts and fare increases will be the result. If additional funding is required, the simplest approach is to use it to enable operators to buy the new vehicles that Government wants them to use.

Our next concern is that it is not clear from the consultation document whether the normal rate of BSOG will be unchanged for 'normal carbon' buses. We advocate strongly that it should be unchanged (if not increased as discussed above).

We would also argue that, if the idea of capital grants is rejected, Government must maintain the higher rate of BSOG for LCBs for the whole life of the asset. There could be graduated rates of BSOG so that LCBs receive more funding if they save more carbon (this could work in a similar way to differential rates of Vehicle Excise Duty). A 40% carbon reduction is possible, and this should be aimed for. In the long term, as lower carbon buses are introduced, new rates of BSOG should be introduced to incentivise operators to purchase them.

Finally, we do not think that the use of biofuels is an appropriate response to climate change, unless these biofuels are produced by recycling waste products rather than by growing crops. Growing crops for fuel rather than food is a factor in rising food prices, which are causing havoc in many developing countries. The Government should reject the drive towards growing crops for biofuels as unethical, and should ensure that bus operators are only given incentives to use those biofuels which are produced from waste products.

Proposal 3: Devolve BSOG payments to areas undertaking Quality Contracts, including London

Campaign for Better Transport would like to support this proposal, but we cannot agree with the idea that the devolved BSOG would not be ringfenced for buses. It is absolutely vital that funding for buses increases, and any reduction in bus funding must be avoided. We would agree that in Quality Contract areas, it is entirely appropriate that the local transport authority should be responsible for matching funding to local objectives and ensuring good local bus networks are provided. However, if this funding is not ringfenced, it may be diverted, and passengers would suffer if this happened. The Government has national objectives and goals for transport, buses play a key part in achieving these goals, and they cannot do so without sufficient funding. It is misguided to defend giving local authorities the freedom to spend BSOG money on things other than buses, when buses are so key to central Government's own goals. BSOG must be ringfenced for buses if it is devolved, it must be provided at the same level as currently and must be increased over time as it would be if it were centrally administered.

We would argue that there is a strong case for increasing levels of ringfenced bus funding, and would caution Government against assuming that simply devolving funding decisions to local authorities would lead to radical changes in the extent to which funding can be targeted to achieve policy goals (see paragraph 59 of consultation document). There is very limited funding provided by Government for buses and extra funding is required, not just better targeting of that funding.

Proposal 4: Tiered rates of BSOG

We do not think Proposal 4 should be pursued.

We are not convinced that this proposal will have an effect on the Government's stated aim of reforming BSOG so that it improves the environmental record of buses and meets climate change objectives. In terms of reducing carbon emissions from transport, if the Government assumes that installation of these systems will achieve modal shift, then this is a departure from the stated aim of the consultation. We would welcome a new focus on getting people out of cars and onto buses. But in that case, while smartcard systems and RTI are a part of the picture, the Government would need to look at the most cost-effective way of achieving modal shift as part of tackling climate change.

From a practical point of view, it is our understanding that bus operators and PTEs do not necessarily agree with the assumptions made by the Department in establishing the business case for investment in smartcards and RTI. Unless there is a clear business case for investing in these, it is unfair to penalise operators for not doing so.

If there isn't a business case for the private sector to do this alone, then Government needs to decide on its priorities. Smartcards and RTI do bring real passenger benefits, and so Government money could be provided for the installation of these, with Government itself being the client. Again, capital investment would seem to be appropriate rather than changes to revenue funding. Payment of ongoing back office costs could be negotiated with the operators, although policies must be put in place which would mitigate the additional cost for small operators.

If the proposal were carried out as it stands, both the capital costs and the subsequent back office costs would increase costs for operators, leading to higher tender prices, higher fares or bus cuts. We don't believe the benefits of smartcard systems and RTI are likely to outweigh these costs.

This proposal would also be unfair in that local authorities and PTEs have sometimes paid for the installation of these new systems – in some areas bus operators would be unfairly rewarded for these political decisions, in other areas they would have to invest themselves before they could receive higher rates of BSOG.

Proposal 5: Payment of BSOG in arrears and e-submission of claims

We are concerned that payment in arrears would tie up money that could otherwise be invested by operators, and that it could cause serious cash flow problems for small operators.

This is primarily a matter for the Department and bus operators to decide together, but we are generally against this proposal for these reasons.

Proposal 6: Safe and Fuel Efficient Driving demonstration

We think that the SAFED demonstration programme is a very good idea, and should be developed by Government. However, we do not believe that this programme should be taken forward as part of reforming BSOG. As explained above, we think that Proposal 1 (capping BSOG when fuel efficiency is low) should not be pursued. Given this, we believe it is the Government's role to raise awareness of the SAFED programme, in partnership with the bus industry. Tighter regulation of driver training to ensure good practice is being followed could also be an option.

Alternative options

Continue with the current approach

BSOG, as the Government acknowledges, is an efficient way of subsidising buses, and is good value for money. This fact, combined with the arguments made above, means that a very good case needs to be made for changing it. BSOG is the main way in which Government shows its support for bus services in general. As the consultation document explains, BSOG means that bus patronage is around 6.7% higher, services are 7.1% higher and fares are 6.5% lower than if BSOG were completely withdrawn. If BSOG were withdrawn, it could not easily be reintroduced, due to European law. Another advantage of the current system is that it is relatively simple, fraud-proof and cheap to administer and police. This is one reason why it would make sense to provide capital grants to operators to invest in low carbon buses and improvements such as smartcards and RTI, rather than reforming BSOG.

There is currently severe pressure on bus services. Increasing fuel costs, wages and insurance and inadequate concessionary fares reimbursement mean that the bus industry is very fragile. Congestion and slowing traffic speeds exacerbate the situation, and make it difficult for bus operators to reduce fuel consumption. Reforming BSOG in a way that reduced net income for any bus operator would lead to fare increases, reduced patronage and service cuts, and passengers would suffer as a result.

Tiered rates of BSOG – other criteria:

Punctuality

We agree with the Government that this proposal should not be pursued. The Traffic Commissioners should deal with punctuality issues.

Distance based payment

We agree with the Government that this proposal should not be pursued.

Direct funding of Traveline

We do not support the funding of Traveline through BSOG. Traveline is a key service, and the Government should provide extra funding to ensure it is provided, without using funding that is needed to maintain current service levels.

Potential longer-term options

- **Devolution of all subsidy to Local Authorities, including BSOG, irrespective of whether a quality contracts is in place or not.**

As explained above, we would only support the devolution of BSOG if this is ringfenced for spending on buses, if it is provided at the current rate at least and increased over time in an appropriate way. We also think there would be problems in practice with a local authority being given BSOG funding if it did not also have a Quality Contracts or comprehensive partnership scheme in place.

- **Moving to paying BSOG on a per passenger payment rate, or a passenger kilometre basis, instead of BSOG, once smart cards were in place, to support passenger numbers rather than subsidise fuel consumption.**

We would disagree with reforming BSOG on this basis, as it would impact badly on rural buses. Rural buses are already very fragile, much more so than urban buses. Rural bus operators are suffering from cost increases, and recent fuel price increases (given that BSOG is only an 80% rebate) have hit them hard. If money is effectively transferred from rural to urban services, there will be even more rural bus cuts.

Rural buses are vital because they give people access to jobs, shops, education, training and services. 11% of rural households do not have access to a car – in this context, lack of buses will push them into car ownership or social exclusion. Rural buses can bring in visitors and tourists, and enable people living in cities to access the countryside. Rural buses reduce rural traffic, which is increasing year after year. Rural buses are a key part of the good door-to-door public transport that can get people out of their cars, and reduce the need for car ownership.

For all of these reasons, rural buses are vital and need to be protected. In many other countries there are good, integrated bus services even in the most remote rural areas – we could do the same. A per passenger payment would impact badly on rural buses, and the policy objectives that they fulfil, and that is why we would not support it.

We also have concerns that a per passenger payment rate might encourage operators to split bus routes to increase their subsidy.

- **Exploring more radical options for linking BSOG and concessionary fares reimbursement (for example, paying a much higher rate of BSOG – probably per passenger – and making it a condition of receiving this public subsidy that the operator carried concessionaires).**

We would disagree with this approach. Concessionary fares reimbursement is essentially a way of providing free travel to certain individuals, whereas BSOG is a subsidy to all passengers, and to bus services in general. It would be confusing and inappropriate to combine the two. The Government should ensure that operators are no better and no worse off as a result of carrying concessionaires, and should deal with wider bus funding issues separately.

On this topic, we are pleased that the Government is trying to sort out concessionary fares reimbursement problems. This needs to be done before any changes are made to the provision of BSOG.

Conclusion

- 1) The Government should consult on how its subsidy, taxation and pricing of different transport modes fit in with its climate change objectives, and whether changes should be made. This consultation would help to inform decision making on how to reduce carbon emissions from transport. It would support work being done on 'Towards a Sustainable Transport System', the Climate Change Bill and the carbon reduction budget.
- 2) Buses already make a significant contribution to reducing carbon emissions from transport, and the most effective way to increase that contribution is to get more people to use them. Modal shift from car to bus would help to achieve many of the Government's policy objectives: tackling climate change; reducing congestion; reducing traffic; improving safety; increasing accessibility to jobs and services and improving quality of life.
- 3) The Government should provide more funding for buses if it wants to achieve these objectives. More funding should be provided for the Rural Bus Subsidy Grant (possibly by ringfencing fuel duty increases), and BSOG should be increased to 100%, with added incentives to encourage investment in low carbon buses on top of that rate.
- 4) The Government should incentivise bus operators to invest in low carbon buses, ideally by providing capital grants for operators, to allow them to invest in fuel-efficient LCBs. Proposal 2 is the only proposal we would support, but we would only support it on the basis that the overall amount of funding provided is increased. The level of BSOG currently provided should stay the same, with additional funding being offered to those operators investing in LCBs. As mentioned above, an easier way to achieve this might be through capital grants. (Capital grants could also be provided for investment in smartcards and RTI.)
- 5) We would not support a simple reallocation of current BSOG funding, as we believe the disruption caused would not be worth it. The bus industry is already suffering from spiralling

costs and comparatively low levels of Government funding. If additional funding is not provided, reallocating BSOG would almost definitely mean even more bus cuts and fare rises, and it would impact badly on small operators in particular. Buses already help the Government to achieve its climate change objectives: any change should build on that contribution and should not put passengers' interests at risk.

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