

# Bus Subsidy review

- Objectives
- Background
- Case for Reform
- Options for Reform
- Conclusion

# Bus Subsidy objectives

- Congestion
- Environment - Climate change and air quality
- Accessibility & social exclusion
- Bus patronage
- Service quality
- Affordability
- Regulatory costs and administrative burden (operators and DfT)
- Compliance and robustness
- Legal constraints
- Timing

# Bus Subsidy and Grants (£m)

Department for  
**Transport**

		2003/04	2004/05	2005/06	2006/07	2007/08
	<u>DfT Grants</u>					
A	BSOG – direct to operators	343	359	369	388	411
B	Grants to LAs	74	82	73	73	67
C=A+B	<b>Total DfT Spend</b>	<b>471</b>	<b>441</b>	<b>442</b>	<b>461</b>	<b>478</b>
	<u>Local Authority Spending</u>					
D	Spend on Secured Services	235	234	283	309	330
E=D+B	<b>Total LA Spend on Secured Services</b>	<b>309</b>	<b>316</b>	<b>356</b>	<b>382</b>	<b>397</b>
	<u>London Spending</u>					
F	London Bus Support	516	546	596	625	650
G=E+F+A	<b>Total Revenue Spend (exc. Con. Fares)</b>	<b>1,167</b>	<b>1,221</b>	<b>1,321</b>	<b>1,395</b>	<b>1,458</b>
	<u>Concessionary Fares</u>					
H	Concessionary fares (England)	457	455	487	712	725
I=F+H	<b>Total Revenue Spend on Buses (England)</b>	<b>1,625</b>	<b>1,676</b>	<b>1,809</b>	<b>2,107</b>	<b>2,183</b>
	<u>Capital Spend</u>					
J	Capital Spend on Bus and P&R	229	235	251	263	275
K=I+J	<b>TOTAL SPENDING ON BUSES (ENGLAND)</b>	<b>1,854</b>	<b>1,911</b>	<b>2,060</b>	<b>2,370</b>	<b>2,458</b>

# Case for BSOG Reform

- Current subsidy is good vfm. BCR around 3, results in 7% high patronage, 7% more fares and 75 lower fares than no subsidy.
- But poorly targeted on objectives, particularly climate change.
- Risks to patronage goal.
- Growing emphasis on reducing congestion through modal shift.
- Current system weakens operators' incentives to introduce more fuel efficient vehicles.

# BSOG tied to criteria

- Use of dual rate with higher rate for those meeting criteria
  - Smartcards and/ or GPS on fleet
  - Fuel efficiency or emission standards
  - Punctuality - not recommended with current data
- Floor to BSOG payments for most fuel inefficient fleets
- Issues:
  - Expected to be good vfm
  - Can be used to target specific goals for Government policy eg take up of smart card readers
  - Overlap with introduction of Smartcard concessionary fares passes
  - What size differentials/ bands? Key priorities?

# Per Passenger Payment

- Potentially the biggest positive impact on patronage. But conditional on additional funds. Latest CfIT report suggests limited impact on patronage in major urban areas, without more money
- Very disruptive – winners and losers and uncertainty over impacts
- National smartcard scheme may be needed
- Large increases on urban routes reducing congestion
- Reduction in rural services, so hits rural accessibility. May need additional rural support net
- State Aid clearance may be needed

# Vehicle distance based charge

- Switches money from urban to rural services, so poor vfm.
- If targeted with differential rates between vehicles (Euro II, III, IV, V) this could mitigate the urban/ rural impact, but much more complex to administer, does not support other goals, and favours larger bus operators.

## Devolve Bus Subsidy

- Impacts depend heavily on whether franchising is widely used
- Transitional costs to facilitate franchising, but lower administration cost for DfT
- Policy decision required on changes eg could grow with patronage or with inflation?
- Results likely to be driven by local objectives for quality contracts
- Note: without franchising devolution of subsidy is risky and could be poor vfm.



## Other bus subsidy grants

- RSBG – strong accessibility, social case for retaining
- SAFED – good environmental and safety case
- Kick-start
- Distance based charge for electric-hybrids (based on equivalent rate s standard diesel bus)

# Emerging conclusions and next steps

- Strong case for changing subsidy over time due to climate change concerns, vfm and budget constraints
- BSOG linked to performance could increase patronage, offer better vfm and allow Government to target specific objectives
- Strong case for devolving for areas which undertake quality contracts plus London
- In longer term a per passenger payment likely to offer better vfm (for areas not undertaking quality contracts) but need widespread use of smart cards and big risks of disruption
- Public consultation in February